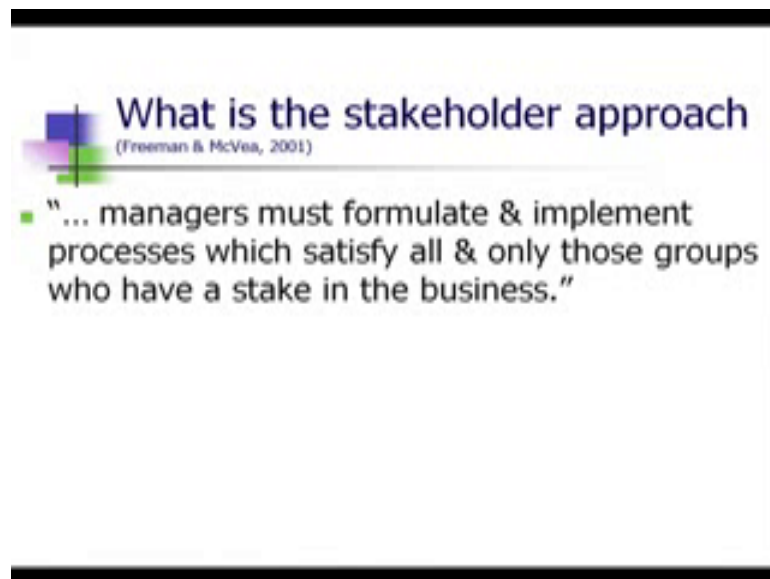


Corporate Social Responsibility
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Lecture - 14
The Stakeholder Approach

Welcome back to the m o o c course titled corporate social responsibility, my name is aradhna malik and I am helping you with this course, and we were discussing about the stakeholder approach to CSR and we had started talking about what stakeholders are, what is the meaning of stakeholders and how they fit into the overall working of the organization. Now in this class we will talk about the stakeholder approach, you know what the theory states what it is all about. So, let us see what this is ok.

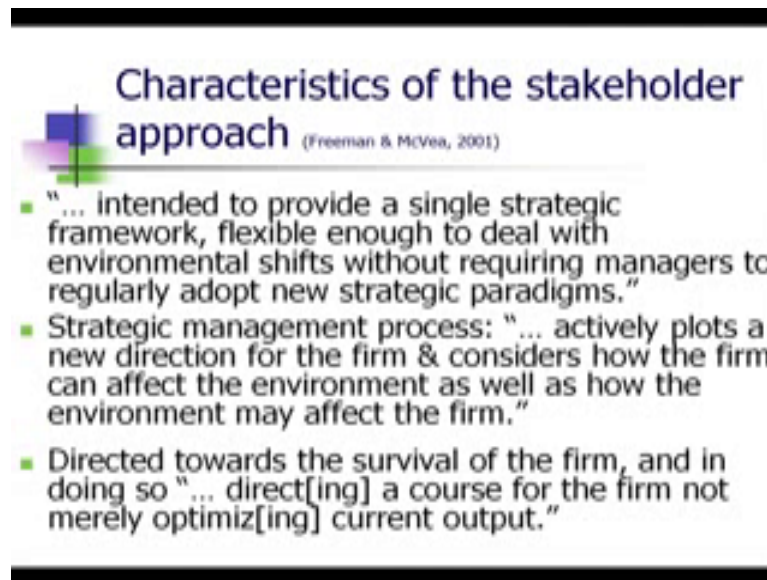
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What is the stakeholder approach? Freeman and McVea proposed that the you know when we talk about the stakeholder approach, Freeman and McVea say that we that managers must formulate and implement processes which satisfy all and only those groups who have a stake in the business.

So, it is everybody, but nobody outside that group. Only those who have a state in the business and that is what we are going to deliberate upon in this class, you know who are stakeholders how do you define stakeholders.

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Characteristics of the stakeholder approach (Freeman & McVea, 2001)

- "... intended to provide a single strategic framework, flexible enough to deal with environmental shifts without requiring managers to regularly adopt new strategic paradigms."
- Strategic management process: "... actively plots a new direction for the firm & considers how the firm can affect the environment as well as how the environment may affect the firm."
- Directed towards the survival of the firm, and in doing so "... direct[ing] a course for the firm not merely optimiz[ing] current output."

Now characteristics of the stakeholder approach it is intended to provide a single strategic framework flexible enough to deal with environmental shifts, without requiring managers to regularly adopt new strategic paradigms. So, it is one framework it is a single framework that can that has the dynamic ability built into it. Which means it is able to sense how the environment is changing and it can adapt to the environment. Now strategic management process actively plots a new direction for the firm, and considers how the firm can affect the environment as well as how the environment may affect the firm. We are talking about the process of strategic management, this means that this is an active plotting of how the firm is being affected by the environment, how the firm is affecting the environment, and what direction we will this firm environment relationship interaction take in the future.

You know how we will this contribute to both the firm and the environment in future. These stakeholder approaches directed towards the survival of the firm and in doing so, directing a course for the firm not merely optimizing the current output. When we talk about stakeholders we are talking about people who are affected by people, organizations, groups, communities affected by the existence the working, the development, the growth, of the firm. So, the firm has to survive and we are talking about the approach and approach to management, that is directed towards the firms existence continuing. Now let us take the example of the journalism sector for example, when we were growing up the way news was spread to people was through radio when I

was growing up then came the television internet came when I have grown up and so, for us the way of getting news was through radio, television and newspapers, when I was studying in my college years we did not have access to TVS in our rooms, all of us he is to have radios and some of us used to subscribe to daily newspapers we used to have a newspaper, in our reading room and we would go there and all of us used to sit and read the newspaper.

So, that was one way of getting the news. Now if we heard if we thought about taking a piece of the news we would just go asked the what information cut out a piece of that news and stick it in what we called as a scrapbook. We did not have the internet to go back to and look for archived news papers and that time. Now there was ah there was several magazines at that time that we were all very very fond of and some of these magazines as the internet came in things started getting digitized. So, some of these magazines then got digitized continued to be in circulation. Newspaper whose digit digital versions were available still continued to be popular, but the magazines that did not to adapt to the digital ah evolution slowly went out of circulation and were no longer available they used to be a magazine called the illustrated weekly I remember it was it was a very old magazine and one day we heard that it was not going to be printed anymore and I do not know the reasons for it, but the illustrated weekly eventually went out of circulation I am assuming that if they had kept up with the times and if they had you know and some of these things went out of circulation because they were not subscribing to the ongoing development they were not taking the ideas from the environment and incorporating them in the way they were propagating their news.

So, you know and one more way of getting in touch with people, nobody had thought that the telegraph service would be shut down. We cannot send telegrams anymore then I was not college the only way of getting in touch with people with your family one was of course, the s t d had come by then the straight trunk dialing which came and went these days nobody here is about it. If you have a landline you know what I am talking about, but straight trunk dialing on the phone. So, you know I do not think we can book trunk calls anymore, straight trunk dialing was you just dial zero you have all these codes and you dial from phone, and then telegrams I have sent telegrams home informing my parents. So, good and bad news and we have received telegrams and we use to work on brevity of our messages for telegrams.

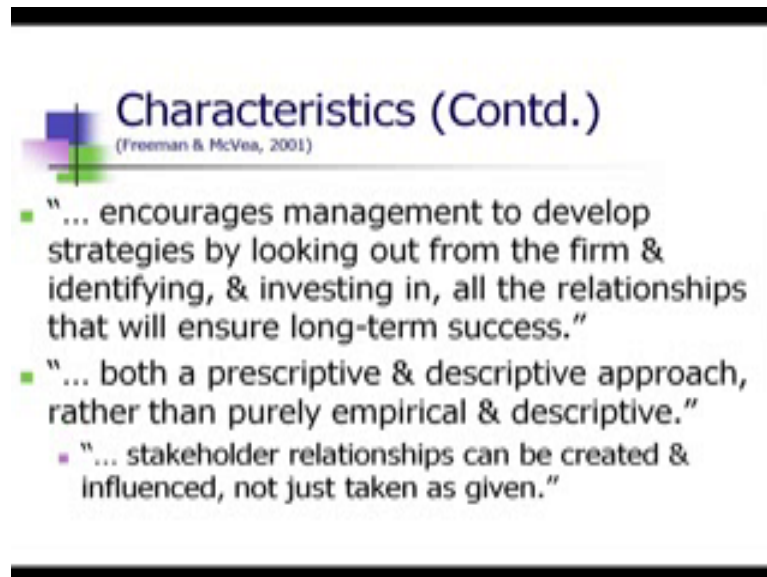
So, when the internet came the telegram became obsolete. Now some of you will say I am confusing obsolescence of technology with how businesses progress all I am trying to tell you is that this example of journalism of the broadcast media. The organizations that survived were the ones that adopted to the needs of their stakeholders people are no longer willing to hold a physical book in their hands they are, but they also want to have a backup many of you what to have a backup, many of you want to read newspapers and magazines online you are all lucky you know many of you all of us. In fact, I should say growing up we did not have so much information at the click of a button we had to physically go through payals of newspapers, to find what we need it and if it was lost it was lost we only way of getting a copy was to go either to a public library or to the newspaper office.

And then we use to get that news. So, what I am trying to say is that you know this is so important to keep the needs of your stakeholders; we were talking about people the withholding strategy last time how do stakeholders influence businesses. So, we have focusing on you know how firms are trying to survive and technological development is one aspect to another example that I can give you here is, of the recent case of a very popular t v personality, not being so popular anymore, because he chose to misbehave with one of his team members. And I will not take any names I am sure your view you know who I am talking about, and this person behaved badly with his team member again and again and finally, the team member said I will not work with you anymore and this person probably did not realize that the stakeholders the people watching the TV program did not want to see this kind of dealing. They did not want to associate with they did not want to support the behavior of a person off screen. This kind of negative behavior of the person whose work they enjoyed so much off screen. It is not only about what this person was given to the people, it was also about the perception of this person has a nice you know progressive human beings.

So, if this person chose to miss behave with one of his colleagues that was not acceptable to the stakeholders even though they were not directly, there were in no way related to the issue. One needs to keep the stakeholders in mind to stay in business that is what I am trying to tell you. It is very very essential for any firm any business to keep in mind they need of it is stakeholders and adapt to the them. So, you cannot just do what you want you have to know what the people around you want and adapt to their needs. So, it

is the stakeholder approaches directed towards the survival of the firm, you are given certain powers the iron law of responsibility, you do not use your powers your position responsibly it will be taken away from me ok.

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Characteristics (Contd.)
(Freeman & McVee, 2001)

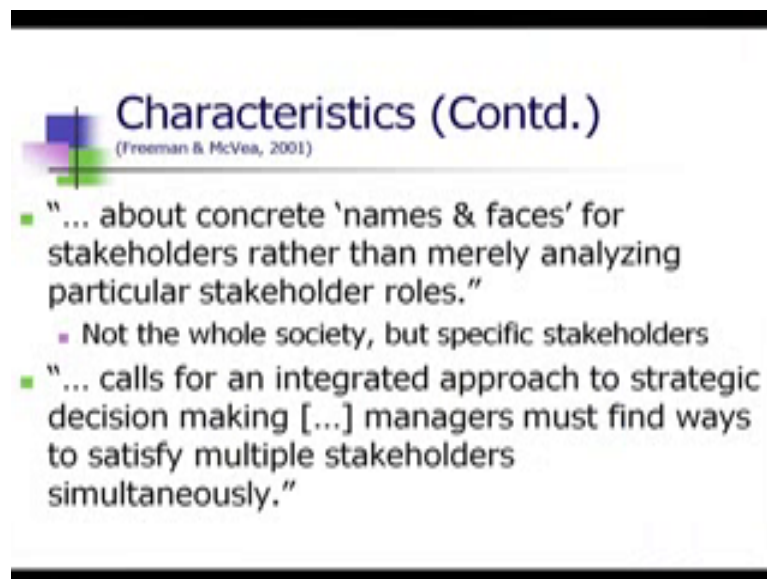
- "... encourages management to develop strategies by looking out from the firm & identifying, & investing in, all the relationships that will ensure long-term success."
- "... both a prescriptive & descriptive approach, rather than purely empirical & descriptive."
 - "... stakeholder relationships can be created & influenced, not just taken as given."

The stakeholder approach encourages the management to develop strategies by looking out from the firm and identifying and investing in all the relationships that will ensure long term success. It is not only output and input, it is not only people buying what you are selling, it is not only what you are you know what you are giving to them in return for what they give to you it is ensuring long term success.

So, it is a lining your needs your value systems with the value systems of your stakeholders if you want to stay in business, this approach encourages the management to develop strategies by looking out from the firm you go out, and you see what people would like to see you as it is all about maintaining a public image. Not only, but maintaining a public image doing things doing indulging in activities, that help you create and maintain an image that your stakeholders will find appealing. So, that is very very essential and you cannot fake; it has to be a part of the organization strategy, it has to be something that the organization does 24 7. The stakeholder strategies both of prescriptive and descriptive approach, rather than purely empirical and descriptive it the stakeholder relationships can be created and influenced not just taken as given.

So, this strategy helps organizations understand what stakeholders will need. We will talk about it later what do stakeholders need, how do you find out what they need, and then doings whatever we will help you strengthen the relationships. Later it is not only inherent the firm can be plot to create stakeholder relationships, stakeholder relationships are not just existing, they can be created and they can be sustained and they can be influenced you know by what the firm does then.

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Characteristics (Contd.)
(Freeman & McVea, 2001)

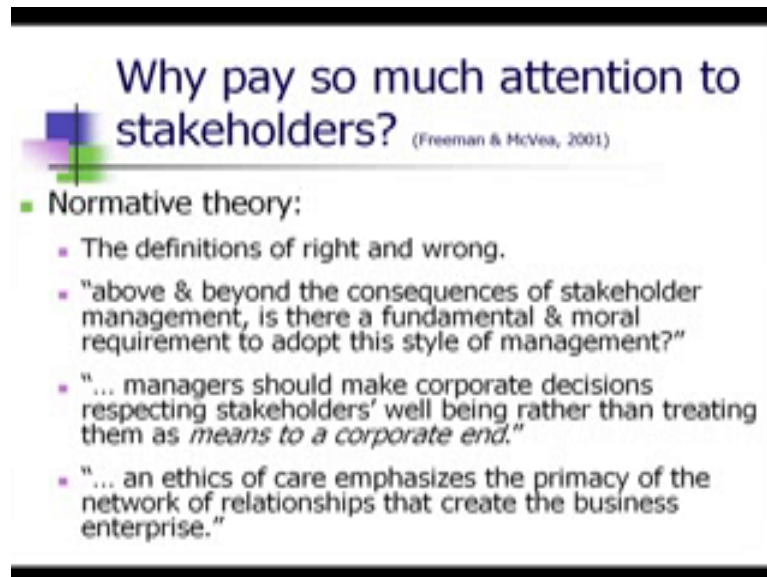
- "... about concrete 'names & faces' for stakeholders rather than merely analyzing particular stakeholder roles."
 - Not the whole society, but specific stakeholders
- "... calls for an integrated approach to strategic decision making [...] managers must find ways to satisfy multiple stakeholders simultaneously."

The stakeholder approaches about concrete names and faces for stakeholders rather than merely analyzing particular stakeholder roles. It is not about the whole society it is about specific stakeholders, it is about clearly de marketing the boundary between stakeholder and society. Who is a stakeholder, who is going to be influenced by what we do, who is going to be able to influence, what we do it is not everybody it calls for an integrated approach to strategic decision making managers must find ways to satisfy multiple stakeholders simultaneously.

We cannot say you know this is who we are going to satisfy one now and this is who we are going to satisfied later. A common thread needs to be identified that can satisfy multiple stakeholders with a group of activities. For multiple stakeholders need to find the work of the organization appearing at, the same time these stakeholders could have conflicting interests they could have conflicting value systems they could have conflicting ideologies, and still the firm in order to stay in business must be able to find

out how to tweak what it is doing, and appeal to these different ideologies, different mindsets, different expectations of different stakeholders. Now why do we pay so much attention to stakeholders.

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Why pay so much attention to stakeholders? (Freeman & McVea, 2001)

- Normative theory:
 - The definitions of right and wrong.
 - "above & beyond the consequences of stakeholder management, is there a fundamental & moral requirement to adopt this style of management?"
 - "... managers should make corporate decisions respecting stakeholders' well being rather than treating them as *means to a corporate end*."
 - "... an ethics of care emphasizes the primacy of the network of relationships that create the business enterprise."

Normative theory says that there are clear definitions of right and wrong we appeal to stakeholders because it is right to do so, we must look after people. We must go above and beyond the consequences of stakeholder management, but the question that is asked by researchers is that do we need to do that, is there a fundamental and moral requirement to adopt the style of management maybe maybe not.

Normative theories say that we must do what is right is there really a need that is the question freeman and McVea ask. Managers should make corporate decisions respecting stakeholders well being rather than treating them as a means to a corporate end. So, managers should make decisions, they need to find out what the stakeholders need what we will enhance their well being, and then act accordingly. And ethics of care emphasizes the primacy of network of relationships, that creates the business enterprise a business is not only made of inputs and outputs, business is made up of relationships networks of relationships and how do we take care of those networks by finding out who is there, who is the part of that net network and how we can satisfy them, how we can appeal to their mindsets, how we can appeal to their ideologies, how we can appeal to their sensibilities and how we can help them see us the firm as somebody who is

concerned about them, as somebody who is looking after their welfare, as somebody who is taking care of their needs ok.

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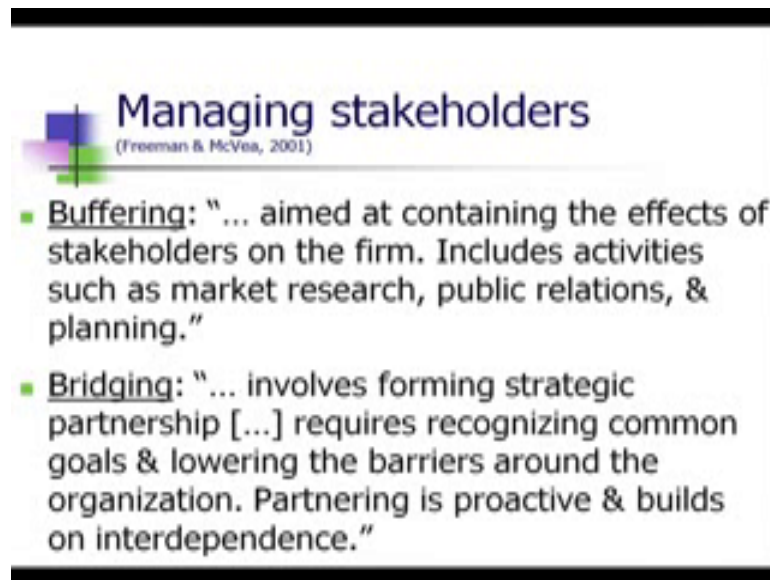
Why pay so much attention to stakeholders? (Contd.)
(Kochan & Rubenstein, 2000, in Freeman & McVea, 2001)

- "... stakeholder firms will emerge when the stakeholders hold critical assets, expose these assets to risk & have both influence & voice."
 - Along the lines of Frooman's paper regarding influence exerted by stakeholders.

Stakeholder firms will emerge when stakeholders hold critical assets. Expose these assets to risk and have influence and voice these are talking about Frooman's paper regarding withholding and usage strategies. We were talking about Frooman's paper regarding withholding and influenced strategies. Now influence withholding strategies means we cut off the firm's access to resources usage strategies are when we let the firm know how to use we put conditions or we lay down certain conditions that the firm can use in order to use the what we have. So, you know it is the influence that is exerted by stakeholders that really influences that really effects what organizations do. Stakeholder firms will emerge when the stakeholders hold critical assets something that the firm needs expose these assets to risk threaten the in a way, threatening the firm the they could lose these assets if they do not listen to the stakeholders, and then this will lead to the stakeholders that have both influence and voice ok.

How do you manage stakeholders?

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Managing stakeholders
(Freeman & McVea, 2001)

- **Buffering:** "... aimed at containing the effects of stakeholders on the firm. Includes activities such as market research, public relations, & planning."
- **Bridging:** "... involves forming strategic partnership [...] requires recognizing common goals & lowering the barriers around the organization. Partnering is proactive & builds on interdependence."

Freeman and McVea way suggest to strategies one is buffering; buffering is buffering and bridging. Buffering is aimed at containing the effects of stakeholders on the firm. So, how do firms we were talked about how stakeholders influence firms now this is the other side. Yes there are stakeholders, but how do I manage them. So, one strategies buffering which is aimed at containing the effects of the stakeholders on the firm, it includes activities such as market research public relations and planning. I have find out what they want I do market research. I establish contact with them, I am maintain a friendly relationship with them, I do public relations and I plan to satisfy them I plan to go and find out what they need plan my activities you know. So, I (Refer Time: 18:59) ahead of the game. Bridging involved firming strategic partnerships and requires recognizing common goals and lowering part the barriers around the organization; partnering is proactive and builds on inter dependence.

So, it is about getting in touch with this stakeholders and forming collaborative partnerships, it requires find out what the goals of these stakeholders are find out how the organization can satisfy them, and then lower the barriers that separate the these stakeholders from the organization, and build bridges between the stakeholders and the organization, and it is proactive and it is based on interdependence. You need something from me; I need something from you, if both of us need something from each other our relationship is going to be much longer lasting both of us have influence over each other, and that is another way to manage stakeholders.

Now I think that is all we have time for in this lecture, we will continue with some more discussion on the stakeholder approach in the next class.

Thank you very much for listening.