

Corporate Social Responsibility
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Lecture - 16
Stakeholder Theory Perspectives

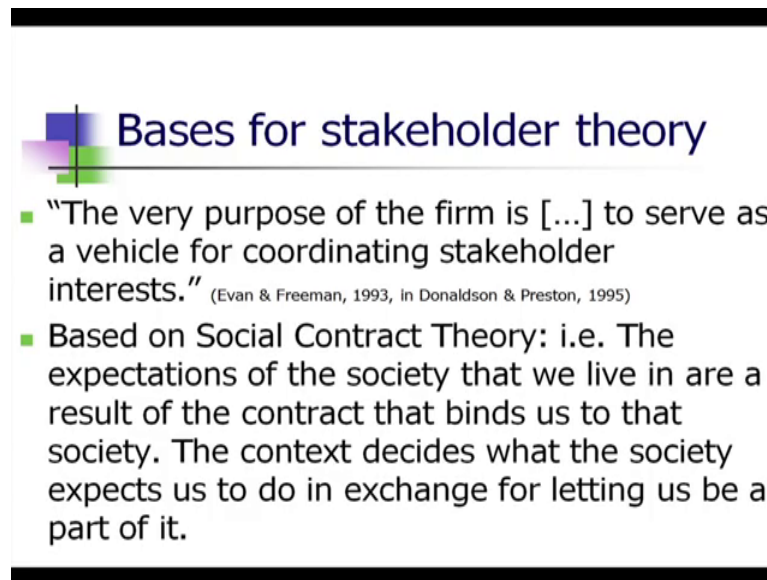
Welcome back to the MOOC course on corporate social responsibility. My name is Aradhna Malik; and I am helping you with this course. And we have been discussing various aspects of the stakeholder theory of management and its connection with CSR.

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So, today we will continue with that discussion. And today we are going to talk about the perspectives of stakeholder theory as they appear in literature. You know how is stakeholder theory viewed in different context by different researchers and its implications for CSR in the corporate world. So, let us see what we have here.

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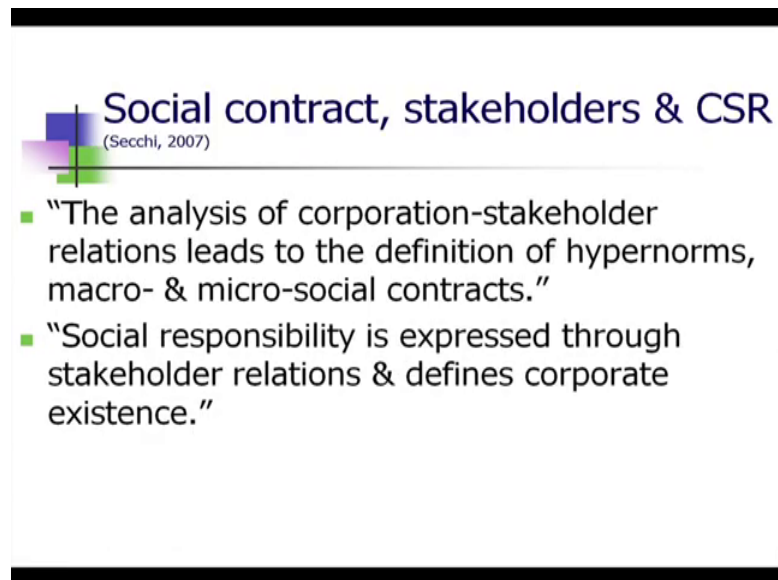
Bases for stakeholder theory

- "The very purpose of the firm is [...] to serve as a vehicle for coordinating stakeholder interests." (Evan & Freeman, 1993, in Donaldson & Preston, 1995)
- Based on Social Contract Theory: i.e. The expectations of the society that we live in are a result of the contract that binds us to that society. The context decides what the society expects us to do in exchange for letting us be a part of it.

Now, the bases for stakeholder theory are the very basis the very purpose of the firm is to serve as a vehicle for coordinating stakeholder interests. Now, this is the very basis, Evan and Freeman sight this and they are the one who talk about it and Donaldson and Preston have talked about it in their paper. So, they say that you know the firm exist to serve stakeholders to fulfill the interest of stakeholders if the stakeholders there by implying that if the stakeholder did not where not there, the firm would not have existed. So, the reason for the existence of the firm is the stakeholders and that is why it is the responsibility of the firm to cater to the interest of the stakeholders.

Now, based now this stakeholder theory is based on the social contract theory, which states that the expectations of the society that we live in are a result of the contract that binds us to that society. So, the context that binds us to the society is something that we have decided we form the society we establish a relationship with the society we and doing so in establishing a relationship with society we form a bond with the society, and when we form that bond that bond is governed by certain rules. So, the social contract theory says that when we form that bond we lay a foundation for the society to expect something from us. And this context then decides what the society expects us to do in exchange for letting us be a part of it so that is the social contract theory, excuse me.

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Social contract, stakeholders & CSR
(Secchi, 2007)

- "The analysis of corporation-stakeholder relations leads to the definition of hypernorms, macro- & micro-social contracts."
- "Social responsibility is expressed through stakeholder relations & defines corporate existence."

So, social contract theory states that we are bound to the society by virtue of certain expectation and the society let us be a part of it in exchange for what we do for it that is the social contract theory. And when we talk about social contract and stakeholders and CSR and the connection of these three, we understand that the analysis of corporation stakeholder relations leads us to the definition of hypernorms, macro and micro social contracts. It is this relationship that we share with the society that determines what those norms are what contracts are formed. So, it is an ongoing iterative process.

Social responsibility is expressed through stakeholder relations and defines corporate existence. So, the relationship we have with the society then determines what type of social contract we have and that intern determines what kind of responsibility we have to the society. And stakeholder theory rest on these relations that contract decides who the stakeholders are what their what they can expect from the society what the society should be expecting from them. So, the contract then decides you know the relationship between the stakeholders and the society forms the basis of the social contract and the social contract then determines what expectations further stakeholders or how stakeholders are identified and the social responsibility is expressed through this relationship.

So, once a relationship is formed we some expectations are said and the fulfillment of those expectations then becomes the social responsibility or that becomes the expression

of the social responsibility. And that intern defines how the corporate organization becomes a part of the society in it exist in so that is the connection of these three concepts.

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Stakeholders CSR perspectives based on stakeholder firm relationship. We are talking about the relationship between stakeholders and firm and society. Now, how do we do CSR? You know the various ways of doing CSR and these perspectives are the following perspectives are based on the relationship between stakeholders and the firms. So, there are three broad types of perspectives that are being talked about and one is the utilitarian perspective, the other is the managerial perspective and the third is the relational perspective. Let us see what these are.

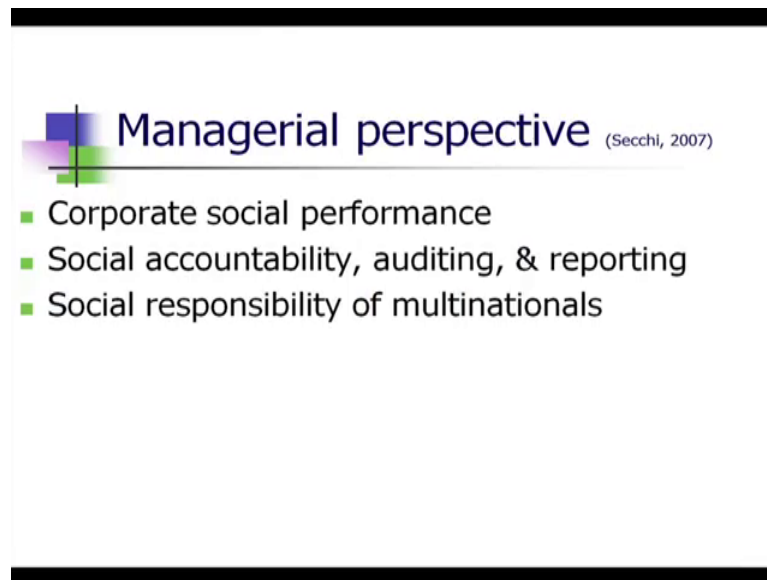
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The utilitarian perspective talks about the social cost you know what does it cost, what is the function of this relationship. What does this relationship do for stakeholders, what does this relationship do for the firm, and how can these relationships be maintained, and what is the output, what is the function? And in order to maintain that relationship what are the activities that need to be carried out? So, when we talk about CSR from the utilitarian perspective, we say what do we need to do to maintain the relationship between the stakeholders and society. So, pharmaceutical company has been set up in a fire flung area or on the out skirts of the city and in a neighborhood where people do not have enough jobs where their land is taken away from them. So, from a utilitarian perspective, this is been setup this has taken over their land.

Now, what should this do for the people, what should be output be, the output should be something that justifies its existence in that society. So, they say we make medicines we will give you free medicines or we will give you medicines at subsidized rates in exchange for letting us be a part of this melue that we are in. So, the utility what kind of activity will justify their existence, it is just a very plus minus kind of game here.

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From the managerial perspective, CSR becomes corporate social performance. So, social accountability, auditing, reporting, social responsibility of multinationals all of these come in the managerial perspective. What do the managers do to keep up to report that the rights things are being done. So, the accountability is there. Who is responsible in the firm, who is responsible for looking after the activities then what do what kinds of reports do they bring out. So, the focus becomes on the reports on keeping the people who are viewing the reports happy or on keeping the beneficiaries of those reports satisfied. What do they want to see in reports? And we do the activities that will make sure that the reports become acceptable to the stakeholders to the people who are going to be looking at those reports.

The measurable performance, it is not just opening a dispensary it is a measurable social performance that is in line or that is coherent with our vision mission and philosophy. So, what are we doing and that becomes the managerial perspective, social responsibility of multinational different context required different things to be done. We will talk about this in later lectures.

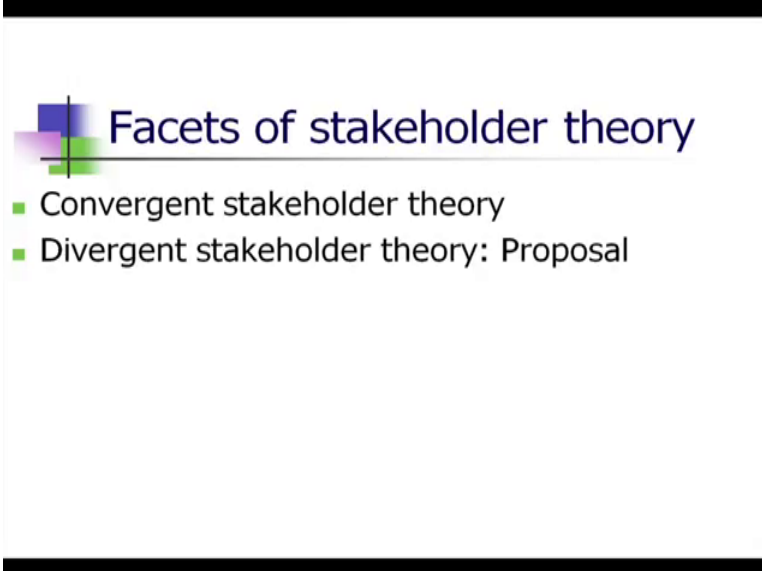
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From a relational perspective, it is not only the output and input. It is the relationship we have with the people around us. Do we give them what they need? Do we have a good relationship? How do they view us? Corporate global citizenship, the stakeholder approach—do we take their interest into account? It is not only giving them free medicines and being done with it; you come with a card, you get the medicine, you are just a number in our books, and we are just a place where you can get cheaper medicines. It is the actual one-to-one relationship or the actual relationship of the community with the organization.

So, shareholders and stockholders who have a measurable financial stake in the company. When we talk about stakeholders, these people are affected by what the corporation does; they may or may not have a financial interest in the company, they may or may not be able to influence the performance of the company, but they are the ones who have been affected by it. So, when we talk about the stakeholder approach, we feel that you know when we talk about the relational perspective from a relational perspective, the organization actually tries to be a part of the society it is in. It is not only legal compliance; it is not only having something tangible visible in a place in your knowledge towards fulfilling their responsibility. It is an actual, genuine, you know, integrated kind of relationship with the society that they have. So, the society really views them as part of it.

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Facets of stakeholder theory

- Convergent stakeholder theory
- Divergent stakeholder theory: Proposal

Now, facets of stakeholder theory. There are two primary facets that have been proposed there are two primary facets of stakeholder theory that have been proposed. One is the convergent stakeholder theory and the divergent stakeholder theory. The divergent stakeholder theory was proposed, but I could not find any literature after the proposal, but I still thought that you should see it because that is one more way of viewing the stakeholder theory and what it does for CSR or how it integrates with CSR. So, let us see what these are.

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Convergent stakeholder theory

(Jones & Wicks, 1999)

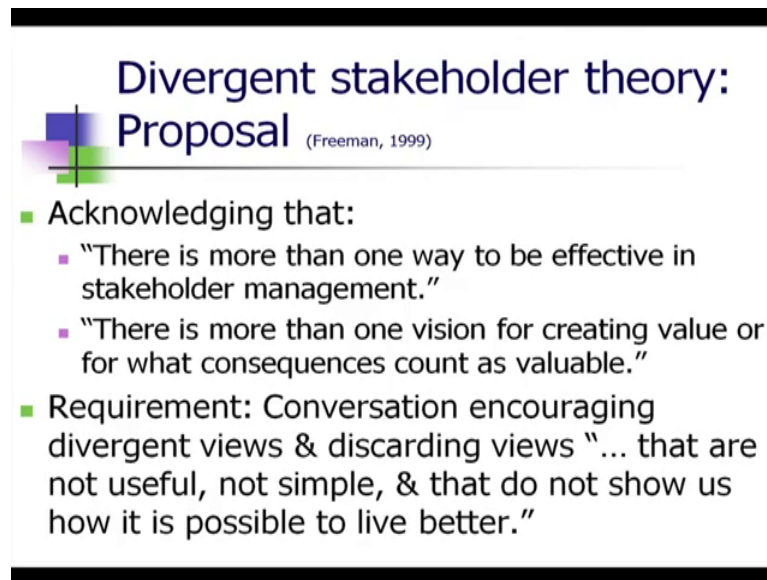
- Managerial maxim: Managers should strive to create & maintain mutually trusting & cooperative relationships with corporate stakeholders.
- Normative core: Relationships characterized by mutual trust & cooperation are morally desirable.
- Supporting instrumental theory: Firms whose managers establish & maintain mutually trusting & cooperative relationships with their stakeholders will achieve competitive advantage over those whose managers do not."

Now, the convergent stakeholder theory was proposed by Jones and Wicks in 1999. Managerial maxim is that manager should strive to create and maintain mutually trusting and cooperative relationships with corporate stakeholders. So, there should be a reciprocal synergistic kind of relationship with the stakeholders, and there should be cooperation and that is the managerial maxim. So, people you know the ideas the vision, the thinking, the philosophy should converge the philosophies of the stakeholders of the firm should converge to a mutually acceptable cooperative form of social responsibility that is the managerial maxim.

The normative core is that relationships characterized by mutual trust and cooperation are morally desirable. The normative core is that relationships characterized by mutual trust and cooperation are morally desirable. So, if there is trust between the firm and the community, if there is cooperation, if they try very hard to cooperate with each other then the you know that that becomes appealing that become right to both parties, so that becomes acceptable because it is right to do it. So, that becomes right to for both parties and so this is morally desirable.

Supporting instrumental theory, firms whose managers establish and maintain mutually trusting and cooperative relationships with their stakeholders will achieve competitive advantage over those whose managers do not, this convergent theory is supported by an instrumental theory. Instrumental theory says that if you do x, you will achieve y. So, firms whose managers establish and maintain these kinds of relationships with their stakeholders will achieve competitive advantage over those whose manager do not. If you do the right thing you will get this kind of an advantage, you will get competitive advantage, your firm will do better, your firm will perform better than the people who do not establish these kinds of mutually trusting and cooperative relationships.

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Divergent stakeholder theory: Proposal (Freeman, 1999)

- Acknowledging that:
 - "There is more than one way to be effective in stakeholder management."
 - "There is more than one vision for creating value or for what consequences count as valuable."
- Requirement: Conversation encouraging divergent views & discarding views "... that are not useful, not simple, & that do not show us how it is possible to live better."

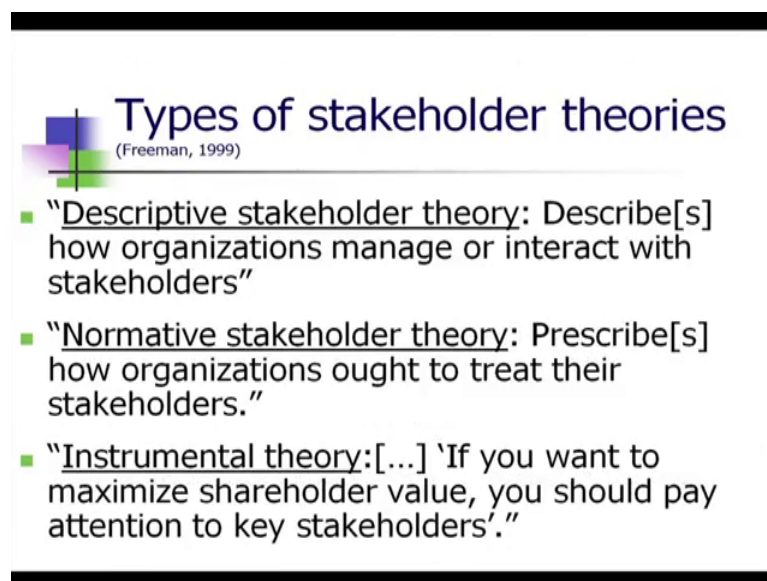
Divergent stakeholder theory, the proposal here is acknowledge that there is more than one-way to be effective in stakeholder management. There is more than one vision for creating value for what consequences count as valuable. So, we acknowledge that the people will have divergent views. We do not have only, we do not need to converge on a single philosophy, we do not need to converge on our thoughts, we do not need to converge on our views on stakeholder management; there are several ways and all these ways lead to stakeholder management. Why, because there are different stakeholders with conflicting interest we are talked about this earlier also. There are different types of stakeholders and they their interest could be conflicting with each other.

So, how do you justify a company that may be you know cans tuna fish for example, tuna is very popular in the western countries. So, the job of the company is to can tuna fish, now there are special interest groups that say that tuna should not be killed, tuna is a big fish, and with one fish there is large volumes of canable tuna or process tuna that can be produced. But special interest groups working for the prevention of cruelty to tuna or to fish say that you should not be killing tuna anymore. What do you do your organizations job is to do that. So, you say no, we will just catch free tuna from deep seas we will not you know we will make sure that we do not harm the fish, we of course, you killing it. We will make sure that we do not use any illegal means we will make sure we would do not go in to waters that are protected where tuna is protected.

We will go into the free seas where there are large volumes of tuna available. So, we will catch the fish and we will catch limited quantities all that is fine, but where do you draw the line you cannot keep everybody happy there will be somebody who will be saying no, no, no you should not be doing this so that is what the divergent theory says. That it is not necessary to converge on the same vision on the same method of doing things. We can satisfy stakeholders through different means.

The requirement of this theory is that we need to encourage divergent views and distracting and discard the views that are we need to encourage conversation that encourages these views regarding the diversity of stakeholders, the conflicting interest the stakeholders and still managing stakeholders with these conflicting interest. And discard views that are not useful that are not simple at that do not show how it is possible to live better. So, unnecessary discussion should be discarded, but the discussion that focuses on celebrating diversity in views that focuses on celebrating, the diversity in the ways in which we can satisfy our stakeholders should be encourage.

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Types of stakeholder theories
(Freeman, 1999)

- **Descriptive stakeholder theory:** Describe[s] how organizations manage or interact with stakeholders"
- **Normative stakeholder theory:** Prescribe[s] how organizations ought to treat their stakeholders."
- **Instrumental theory:**[...] 'If you want to maximize shareholder value, you should pay attention to key stakeholders'."

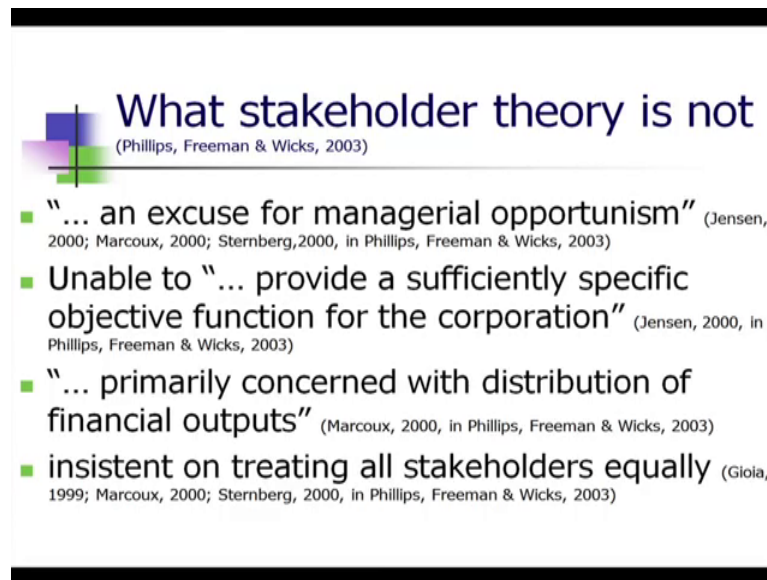
Now, types of stakeholders theories. Stakeholder theories have been grouped into three broad categories. The first is the descriptive stakeholder theory, which describes how organizations manage or interact with stakeholders. So, these theories are talking about how organizations deal with stakeholders, how do they manage them, how do they keep them satisfied. Normative stakeholder theory prescribes how organizations ought to treat

their stakeholders. They are focused on the definitions of right and wrong. They say this is the right thing to do. Descriptive is you take status quo and you describe it in great detail. Normative says this is the right thing to do, this is what you must do to satisfy your stakeholders to maintain these relationships with your stakeholders.

And instrumental theories the group of theories that talk about instrumental aspects of stakeholder theory say if you want to maximize shareholder value you should pay attention to key stakeholders. Why, because the ultimate goal of any profit making organization is to make as much money as possible for the people who have invested in the organization, so that they get the maximum output with as little input as it possible. They given something you work so efficiently that they returns as maximized. So, in order to do that one must pay attention to key stakeholders and who are these key stakeholders people who can influence how the company functions who can influence profits who can influence processes we talked about stakeholders who have influence. So, these are the instrumental theory. So, there are three broad categories under which the discussion on stakeholder theory of CSR is going on.

So, this is you know please try and think of examples this is another homework for you. When you listen to this lecture, I suggest you start you know a topic on the forum where you list you know. So and so company is indulging or so and so the this type of activity falls or this type of theory sorry falls under descriptive stakeholder theory, this type of you know this particular theory falls under normative stakeholder theories, this particular theory of CSR falls under instrumental theories. And if you find something new that does not fall under any of these, please let us know I am sure there is lots of research going on, maybe there is something you know there may be some theories where this overlap is there. So, we could discuss those also, but just look for these examples.

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What stakeholder theory is not

(Phillips, Freeman & Wicks, 2003)

- "... an excuse for managerial opportunism" (Jensen, 2000; Marcoux, 2000; Sternberg, 2000, in Phillips, Freeman & Wicks, 2003)
- Unable to "... provide a sufficiently specific objective function for the corporation" (Jensen, 2000, in Phillips, Freeman & Wicks, 2003)
- "... primarily concerned with distribution of financial outputs" (Marcoux, 2000, in Phillips, Freeman & Wicks, 2003)
- insistent on treating all stakeholders equally (Gioia, 1999; Marcoux, 2000; Sternberg, 2000, in Phillips, Freeman & Wicks, 2003)

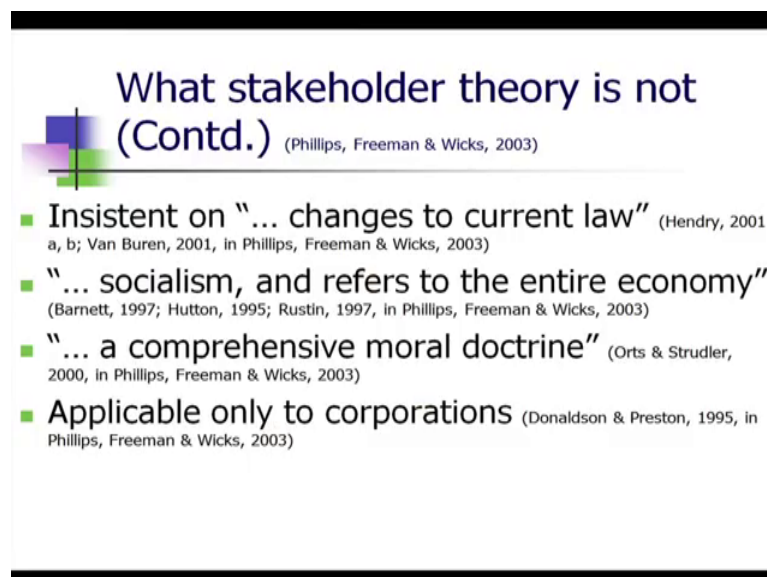
So, when we talk about theories, we till now have been talking about, what theories are what the stakeholder theories are. Now, with this discussion there is also a lot of discussion going on what these theories appear to the critics. And there is a clarification that was given by Phillips Freeman and Wicks in 2003 and the paper is called what stakeholder theories not and I will give you the reference of this paper it is a very nice paper. And it is talks about what stakeholder theory appears to be or is being perceived that as but it is not. Stakeholder theory is not an excuse for managerial opportunism it is not a way of extracting the maximum benefit out of the stakeholders, it is not an excuse for you know in the name of satisfying all stakeholders. We are trying to make excuses for not performing as much as we can because we are trying to keep everybody happy that is not the purpose of stakeholder theory.

It is not unable to provide a sufficiently specific objective function for the corporation. So, critic say that your saying you keep this person happy, but what is the objective function of the company. Stakeholder theory does not confound the specific objective of the company, it does not try to blur the specific objective of the company. It just asks people to open up their minds to the possibilities, it asks practitioners and theorist and people interested in how the company is satisfying the communities arounded to open their eyes and see you know what all or how many people could be affected by it. How many groups, how many communities could be affected by the working of the organization.

The other criticism here is that it is primarily concerned with the distribution of financial outputs that is not the case that is what the stakeholder proponent of stakeholder theory say. They say that it is not about distributing your social responsibility budget among all stakeholders that is not the purpose. There are ways of satisfying stakeholders without giving them financial benefits also. You establish a good relationship with them. You make sure you do not harm the environment, you make sure that you set up facilities again no financial responsibility you set of facilities that can be used by your employees as well as the community. So, there is no additional investment. It is not all about you know dolling out extra money in the hope of satisfying people who can use that money that is not the purpose.

Then stakeholder theories not insistent on treating all stakeholders equally; there is a difference between equal treatment and equitable treatment. So, it does not say that everybody needs to be treated equally, but it does you know different people will have different stake in the organization, they will be affected by the organization differently. They will want the organization to do different things for them. So, you know they have different expectation from the organization. So, stakeholder theory does not say that you need to be treated you know you need to treat everybody equally. You need to all its says is that please acknowledge the existence of these stakeholders and find out how you can satisfy them. And satisfaction of different stakeholders may or may not require equal inputs, so that is what the defenders of stakeholder theory say to this criticism.

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What stakeholder theory is not
(Contd.) (Phillips, Freeman & Wicks, 2003)

- **Insistent on "... changes to current law"** (Hendry, 2001 a, b; Van Buren, 2001, in Phillips, Freeman & Wicks, 2003)
- **"... socialism, and refers to the entire economy"** (Barnett, 1997; Hutton, 1995; Rustin, 1997, in Phillips, Freeman & Wicks, 2003)
- **"... a comprehensive moral doctrine"** (Orts & Strudler, 2000, in Phillips, Freeman & Wicks, 2003)
- **Applicable only to corporations** (Donaldson & Preston, 1995, in Phillips, Freeman & Wicks, 2003)

Stakeholder theory is not insistent on changes to current law, they do not want changes to current law. They say you keep the law as it is at least acknowledge that there are other stakeholders, there are people, there are special interest groups who could be affected by what the organization is doing. Stakeholder theory is not socialism and it does not refer to the entire economy. We talked about social issues and stakeholder issues. We talked about CSR and social work you know we did not use this terms, but we have talked about stakeholder issues and social issues in one of the previous lectures and that is what the people defending or the researchers defending stakeholder theory.

Say they say it is not about the dressing the needs of the entire society, it is about identifying who can be affected by the organization and addressing the needs of those as best as possible while fulfilling the commitments that the organization has to the people who have invested in it financially. So, it is about maintaining that balance between your responsibility to society to people who could be affected by what you do and also making money for the people who have invested in the organization.

It is not a comprehensive moral doctrine it does not tell you what is right and what is not right. Yes stakeholder theory is based on the definitions of right and wrong it is it is good of definitions of good and bad it is good to keep the interest of everybody affected by the organization and mind, yes that is the basic premise. But it is not you know it is not saying that this is the only way to go. So, it is not prescribing a moral doctrine. It is not only applicable owner you know it is not applicable only to corporations stakeholder theory is that that last criticisms here that the stakeholder theory, please focus on the screen, can you yeah thank you.

So, the stakeholder theory is not applicable only to corporations, the stakeholder theory is applicable to any organization that is where management is going on. So, wherever people are being affected by our work, we should keep their interests in mind. So, it is applicable to variety of situations not only to profit making organizations and these are the critics and responses to stakeholder theory.

And with that we wind up our discussion on stakeholder theory and CSR. So, we will discuss a little bit more, but then you know we were talking about stakeholder theory. So, I thought this would be really tying very well in tying in very well with what we have

been talking about so far. So, I think that is all we have time for in this lecture. We will continue with some more discussion on this in the next class.

Thank you very much for listening.