

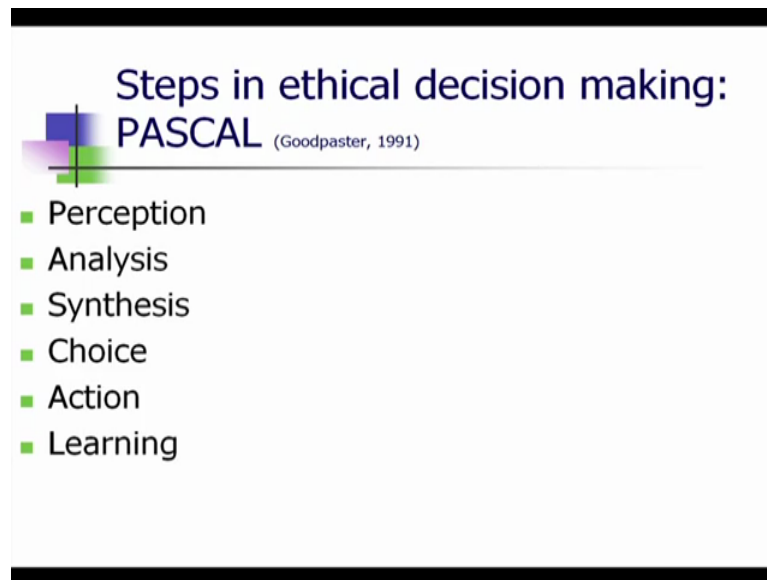
Corporate Social Responsibility
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Lecture - 17
Stakeholder Theory in Action

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 were discussing various aspects of stakeholders and in this lecture we will talk about stakeholder theory in action. So, let us see what it means to apply those concepts you know how do they apply real situations and how do we start you know we are now going into the nuts and bolts of the stakeholder theory of CSR and finally, we will take this discussion from here to how do we actually do CSR in the field. So, let us see what we have now there are you know the stakeholder theory rests on normative theories it rests on the it; it has its basis in the definitions of right and wrong appropriate and inappropriate and stakeholder theory states that you know according to stakeholder theory we do we consider the interests of the stakeholders because it is right it is the right thing to do it is the appropriate thing to do to consider the interests of the stakeholders.

Now, in doing so, we need to make certain decisions that are ethical in nature when we take the stakeholder theory into account and we try to look after the interests of the stakeholders we must make decisions that are ethical that are right that are moral. So, the difference between ethical moral and right and wrong is not it is outside the scope of this discussion, but just to simplify things I am using these terms interchangeably.

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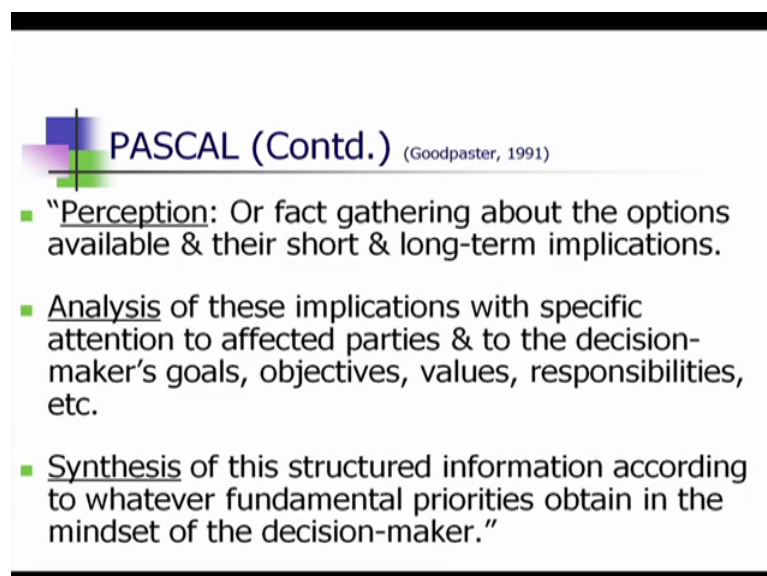


Steps in ethical decision making:
PASCAL (Goodpaster, 1991)

- Perception
- Analysis
- Synthesis
- Choice
- Action
- Learning

So, there are a 6 steps in ethical decision making and the acronym that helps you remember these step is Pascal; P a s c a l and this been refer to in the work of Goodpaster the paper is was published in 1991, I will give you the complete reference for it now these 6 steps are perception analysis synthesis choice action and learning let us see what each of these mean.

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PASCAL (Contd.) (Goodpaster, 1991)

- Perception: Or fact gathering about the options available & their short & long-term implications.
- Analysis of these implications with specific attention to affected parties & to the decision-maker's goals, objectives, values, responsibilities, etc.
- Synthesis of this structured information according to whatever fundamental priorities obtain in the mindset of the decision-maker."

Perception or fact gathering about the options available and their short and long term implications; so, when we talk about decision making we first need to find out what we

have we need to find out what we can work with we need to find out what is there for us to work with. So, we identify the choices the options available to us and we try to find out the long and short term implications of these options.

So, perception is about fact gathering the second step is analysis now what we do in this stages once we know what we have then we analyze these implications with specific attention to the affected parties and to the decision makers goals objectives values responsibilities etcetera I know what my options are, but do these options help me to achieve my goals do these options help me fulfill my responsibilities are these options in line with my value system is it the right thing to do. So, we try to find out the relationship we try to establish relationships between the options available to us and what we can and cannot do as per our objectives goals and value systems many times something very appealing in front of you, but you do not take that option why because it does not seem right and example of this is bribing.

Many of us no longer want to bribe the officials in the train to confirm seats if we have an RAC you know. So, it is increasingly becoming popular we are becoming more and more vigilant we do not wants to comes to these pressure how do we make that decision we prefer to set you know if you reservation against cancellation seat and RAC seat in the Indian railways this means you can board the train and you sit. But you do not have a birth to laid down as soon as its seat is cancelled you are able to you know the it is the responsibility of the ticket collector to or the train conductor to go and find you that seat and inform you that the seat is available and then you go and occupy that seat now sometimes we find some un scruples people asking for bribes.

And they will say while you are here I will give you a confirmed seat I will not tell the other person I am not saying it happens all the time, but occasionally we have seen this happening and many of us do not comes to that pressure we say we will not pay any extra money not because its cost money. But because it is not right or say if we are caught for over speeding you know we preferred to pay the fine instead of just bribing the police constable standing there and saying please let me go please do not you know penalize me here.

So, we do not want to do something that is wrong we do not want to cut corners we will not jump a red light even when the signal even when the road is clear we will stop at red

light we do not want to do it why because it is not the right thing to do it's not. So, you know we have this options available your going speeding on a road and suddenly there is a traffic signal and there is nobody there and you will still slam on your break sand you will you will slam your breaks. And you will stop you do not want to over speed you stop at the red light sign you do not wants to cross the red light sign even though there is nobody on the road why do you do that the option is available you go, but you do not do that because going crossing the traffic signal when you are not supposed to cross it is not in line with your value system.

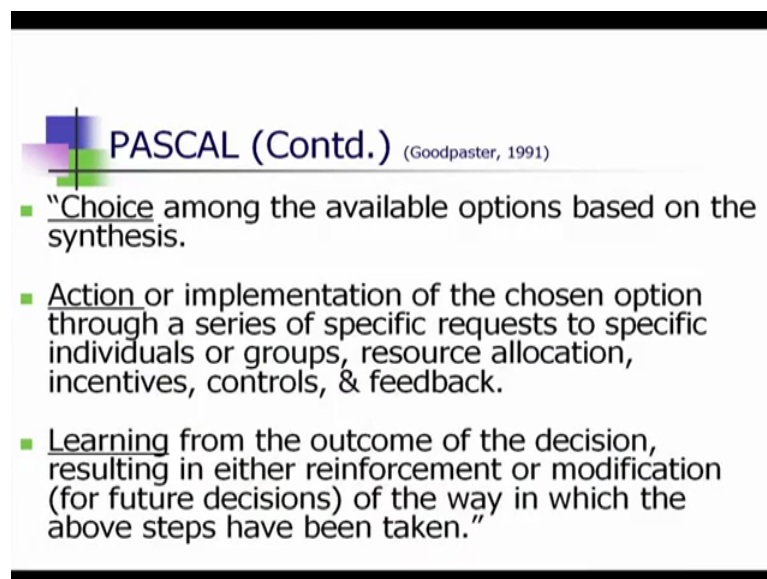
So, when we make these choices you know when we are analyzing things different options are available to us we choose and we analyze and we say this option is good it will save me time crossing jumping a red light will save me time there is nobody looking. So, the risk of being caught by a police constable is or a traffic police constable is low and I have to reach somewhere on time and this will cost me extra 2 minutes that option is also available to you, but I will not do it why because it does not it is not consonant with my value system.

So, we find out how these choices that are available to us relate to our responsibilities I am willing to get late, but I am not willing to compromise on my value system we have a list of priorities. So, you know. So, that is how we make we analyze these choices then synthesis; synthesis of this structured information according to whatever fundamental priorities obtain in the mindset of the decision maker. So, you have all these choices and let us just take the very very simple example of jumping a red light say at 6 o'clock in the morning you have to go somewhere and you have to may be catch a train or you know you have to pick up somebody from the railway station early in the morning and you are rushing or you have to drop your kid at school something some official work.

So, you are trying to rush, but you have all these available choices and you say I have to reach the railway station if it is if I reach the railway station you know stopping at the traffic signal will cost me only 2 minutes, but it will give me piece of mind yes the people who have to go to pick up from the railway station will be delayed they will start getting anxious. But I will not jump the red signal even though there is nobody watching me even though the road is clear I will not jump the red signal why because I have these priorities in mind I have these choices my goal will be achieved not the way I want to achieve it, but may be it will be achieved.

There will be some dentinate, but still. So, we I will still you know appeal the choice that I make needs to appeal to all these different things different criteria that I have in my mind. So, you synthesis all this information and you say top priority to get somewhere on time and to make sure I do not do anything illegal and to make sure you know if I get caught then I could be penalize more time could be wasted. So, that is the utilitarian way of looking at it the ultimate result could be much worst. So, let me not do it. So, you take all of these things and then you make a picture in your mind and you say these are the choices available this is how they link to my goals jumping a red light will help me achieve my goal faster, but me value system is the barrier in the middle. So, I will not do it. So, you make that picture in your mind and that is the making the of that picture in your mind linking all the available choices to your goals value systems your objectives etcetera and prioritizing them into a comprehensive whole is called synthesis.

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PASCAL (Contd.) (Goodpaster, 1991)

- Choice among the available options based on the synthesis.
- Action or implementation of the chosen option through a series of specific requests to specific individuals or groups, resource allocation, incentives, controls, & feedback.
- Learning from the outcome of the decision, resulting in either reinforcement or modification (for future decisions) of the way in which the above steps have been taken."

Then the next step in ethical decision making is choice. Now you have the complete picture in your mind you know what the available choices are you have looked at the you have analyzed their connections you have synthesized the information now what do you need to do is you need to choose the whole picture is in your mind. And you say considering all of these factors this is the option that I choose you make that choice and then the next step is action you act on the choice that you have made action or implementation of the chosen option through a series of specific requests to specific

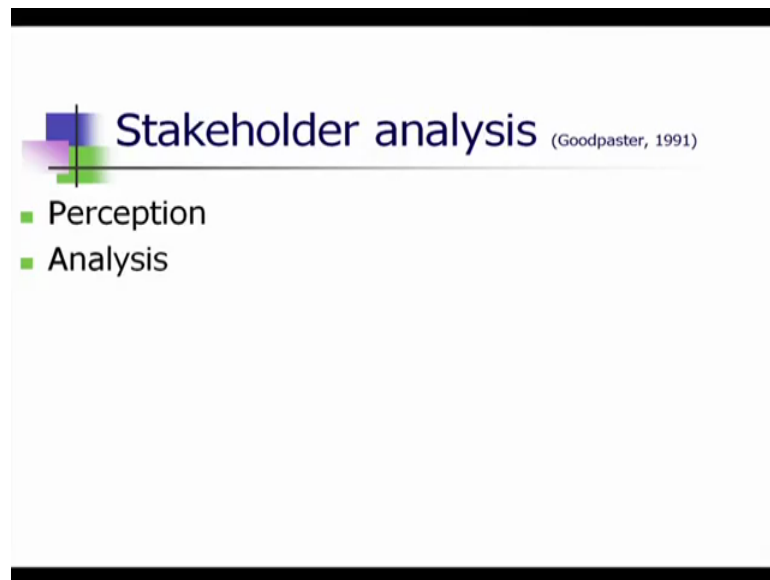
individuals or groups resource allocation incentive controls and feedback various things you are not going to jump the red light.

So, the action you take is you stop and then you inform the people who are waiting at the railway station these days everybody has the cell phones and I am using that example. So, you pick up the phone you call up whoever you are going to pick up at the railway station and you say I will be late because I was caught in a traffic light I did not want to jump at the traffic light I will be late 2 minutes you give them whatever reason you give them, but then you also inform them and you act on that choice.

So, not only do you stop you also inform the people who are waiting that you know everything affected by that choice needs to be taken into account and needs to be acted upon and that is action learning from the outcome of the decision resulting in either reinforcement or modification for future decisions of the way in which the above steps have been taken I am getting late for some place I should have jump the red light to get there on time, but I did not because it is illegal do. So, I reach the place that I am supposed to reach late what is the learning I must leave my home my starting point five minutes early may be ten minutes early I must take into account that these speed breakers these barriers could be there on the way. So, I budget my time accordingly and I leave my house ten minutes early there are red lights on the way I could there are traffic signals I could be confront you know I could reach a red light and I may need to wait it may not be a complete green light zone. So, I just that is learning I take from this whole incident that we how make ethical decisions.

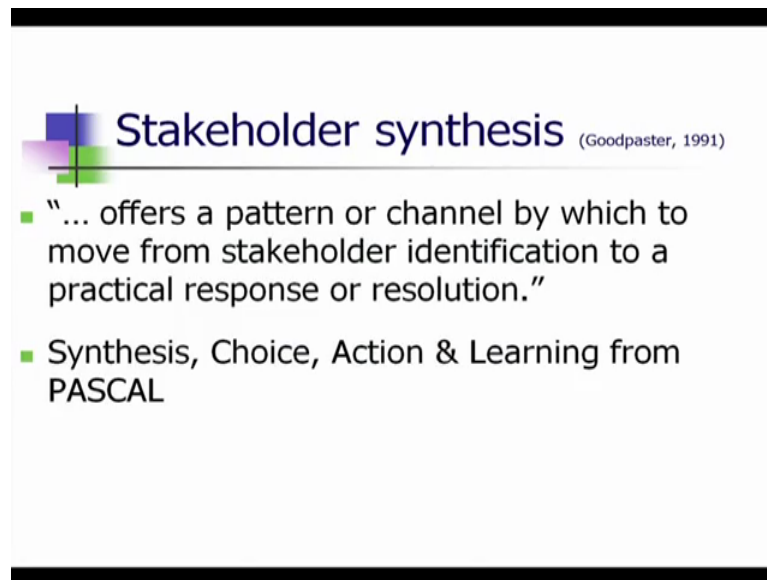
So, the 6 step once again perception what are the available choices analysis synthesis of these choices then making a choice then acting on that choice and drawing a learning from that choice for future actions.

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What happens is now we apply all of these to stakeholder analysis when we talk about stakeholder analysis how do we choose stakeholders and how do we how do we decide which stakeholder to help we are finally, talking you know this is a course on corporate social responsibility not on decision making not on management specifically CSR. So, what do we do we perceive the needs of the stakeholders and we analyze them in the in the light of the needs of the stakeholder. So, that is the analysis part stakeholder analysis refers to perception of different stakeholders and the analysis of the needs of different stakeholders in light of the value system the background the environment of the stakeholders and in light of these available choices in light of what we as an organization can or what stake the stakeholders have in our organization and how this whole thing fits into our organization that is the analysis.

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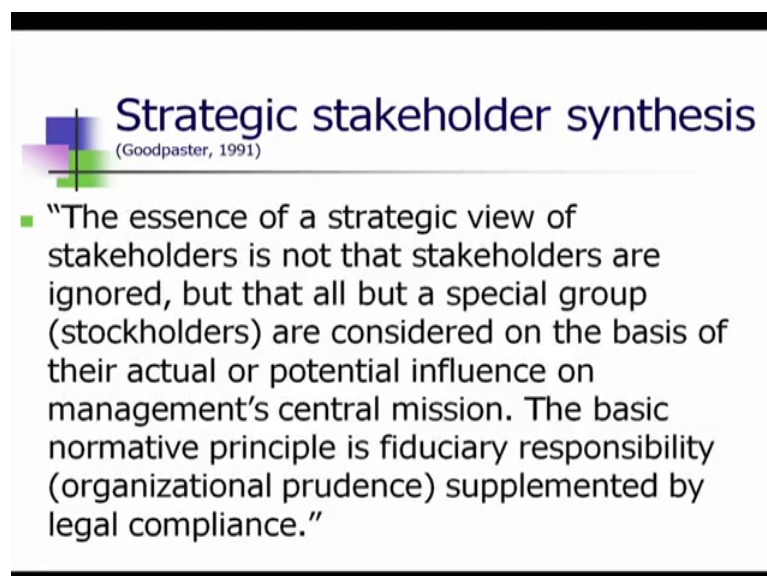


Stakeholder synthesis (Goodpaster, 1991)

- "... offers a pattern or channel by which to move from stakeholder identification to a practical response or resolution."
- Synthesis, Choice, Action & Learning from PASCAL

Then synthesis stakeholder synthesis refers to the next four steps synthesis choice action and learning we take all these choices we synthesize them we prioritize what we can and cannot do what will appeal to the stakeholders and then we choose and then we act on it we implement it we take the feedback from it and we improve upon the next layer of or the next round of CSR activities. It is as simple as that its sounds very complicated, but it is all a cycle you find out what you have you analyze you bring the whole picture together you make a selection you act on it and then you learn from it and take the learning and pump it into the future work.

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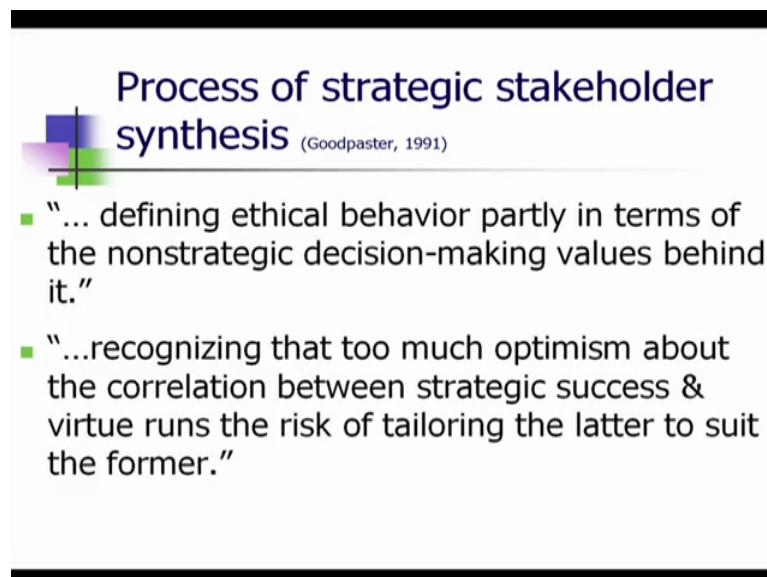
Strategic stakeholder synthesis (Goodpaster, 1991)

- "The essence of a strategic view of stakeholders is not that stakeholders are ignored, but that all but a special group (stockholders) are considered on the basis of their actual or potential influence on management's central mission. The basic normative principle is fiduciary responsibility (organizational prudence) supplemented by legal compliance."

Now, strategic stakeholder synthesis is the essence of a strategic view of stakeholders is not that stakeholders are ignored, but all, but a special group stockholders are considered on the basis of their actual or potential influence on the managements central mission the basic normative principle is fiduciary responsibility organizational prudence supplemented by legal compliances what this fiduciary res responsibility a responsibility based on trust. So, I have it is my responsibility to maintain the trust that somebody has in me and it is used very often in the context of financial dealings now the currency notes that we have you know what is money; it is a promise.

It is not a promise the note have will not go into the details of financial documents, but just look at the wording on a regular currency note. So, it is a promise fiduciary responsibility somebody has interested me with their interest with their relationship with my organization and it is my responsibility to make sure I take care of that trust that somebody else the stakeholder the stake that the stakeholder has in my organization and in the way I work in the organization in what the organization does you know because of this relationship. So, that it is my responsibility to maintain that relationship.

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Process of strategic stakeholder synthesis (Goodpaster, 1991)

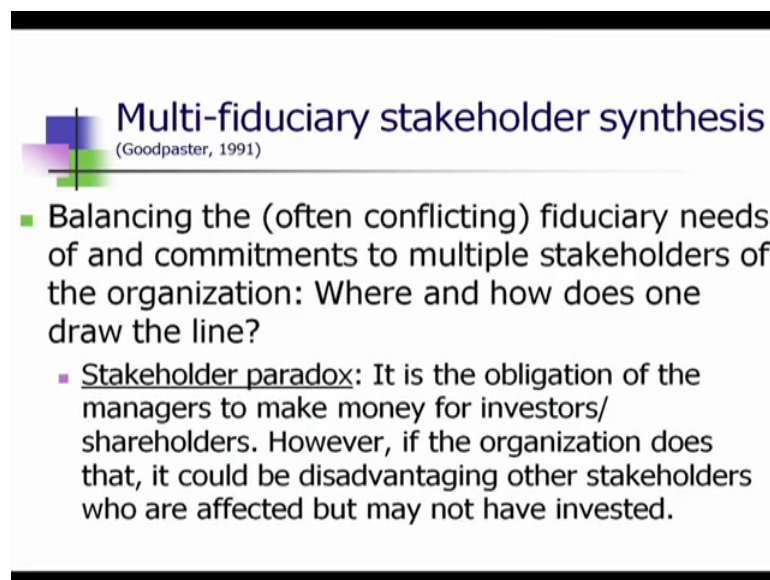
- "... defining ethical behavior partly in terms of the nonstrategic decision-making values behind it."
- "...recognizing that too much optimism about the correlation between strategic success & virtue runs the risk of tailoring the latter to suit the former."

Process of strategic stakeholder synthesis; how do we do this we define ethical behavior partly in terms of the nonstrategic decision making values behind it business strategies again not part of this, but then its related to various aspects of the business. So, we you know. So, you define ethical behavior partly in terms of the nonstrategic decision making

values behind it; it is not the values it is the core values of the organization that help you define the what constitutes ethical behavior for your organization then recognized that too much optimism about the correlation between strategic success and virtue runs the of tailoring that latter to suit the former we cannot really please everybody.

So, when we talk about strategic stakeholder synthesis we have to keep in mind that we cannot tailor the needs tailor our activities to suit the needs of all the stakeholders we have to confirm to the values of the organization also. So, that is the very core that drives we do, but we also needs to keep in mind that the organizations main responsibilities are taken care of.

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Multi-fiduciary stakeholder synthesis
(Goodpaster, 1991)

- Balancing the (often conflicting) fiduciary needs of and commitments to multiple stakeholders of the organization: Where and how does one draw the line?
 - Stakeholder paradox: It is the obligation of the managers to make money for investors/ shareholders. However, if the organization does that, it could be disadvantaging other stakeholders who are affected but may not have invested.

Multi fiduciary stakeholder synthesis what happens when number of people have trust in us and there are conflict often conflicting views. So, what happens at that point balancing the often conflicting fiduciary needs of and commitments to multiple stakeholders of the organization where and how does one draw the line that is the stakeholder paradox how do you balance the needs of the fiduciary needs of and the commitments to multiple stakeholders of the organization.

Stakeholder paradox is the obligation of the managers to make money for investors or shareholders; however, if the organization does that it could be disadvantaging other stakeholders who are affected, but may not have invested. So, you to balance the needs of making money yes it is the most important goal of any organization, but making

money is may bring with it something that or some activities that can leads to disadvantaging other stakeholders. So, we cannot only run after money you know through our organization minimize on input minimize on the money we spend on resources and maximize on the output we can try to do that, but we also needs to keep the interest of the stakeholders into account for example, again this is something that I have used in other class that I teach in that is human resources human beings yes, but human resources are human being resources to be used I do not think so.

But what happens in our run to make money we use people as resources by we I mean profit making organizations we forget the these are people who need sleep these are people who need rest these are people who may fall sick I have seen this and in many taxi companies or many organizations that employed drivers. So, private bus owners you know wherever things are contracted out and people do not have a salary wherever people work on a contract basis I have seen this that you know many times these drivers work nonstop and this that is one example they drive all night. And they will come back and they will have three hours of rest and they will take some medicine and they will drive another 6 hours and then they will be and you know in we as the customers, we as people the passengers in that taxi do not even realize its only when you start talking to these people you realize how over worked they are.

One is of course, their willingness to go the second is that they are not even given a choice are we looking after their needs are we giving them to right equipment I was seen you know somewhere I went and I saw some people welding something they did not have safety goggles they were doing the welding with their bare hands now again I do not want to spark of a debate here, but this happens and this was in some far flung area I do not know which place, but somewhere in India. So, some remote area you go and people are not using they use this old time screen yes that is effective no safety goggles they are welding something with bare hands if their hands get burned. So, what many times they do not bare you know they wear the minimum amount of clothes. So, that their clothes do not catch fire why because the sparks fly and if you are wearing something even moderately synthetic it can catch fire. So, you know. So, so the sparks fallen their skin and they have these little burn marks all over the place.

So, this is what I am talking about we needs to balance the needs of different stakeholders people who make the organization or who run the organization who give the

organization its profits are not being looked after in many places now I do not want to take names, but then there are several places and that is where the strategic stakeholder synthesis comes in there are many critics of multi fiduciary stakeholder synthesis I must warn you it is not only about balancing it. But the literature point towards prioritizing the needs of stakeholders and also says that in order for a company to be successful it must try to prioritize and it must try to keep things you know it must try to attend to the needs of certain stakeholders first and certain other stakeholders next employees definitely are top priority in many cases and they are slowly becoming priority because of these types of discussion.

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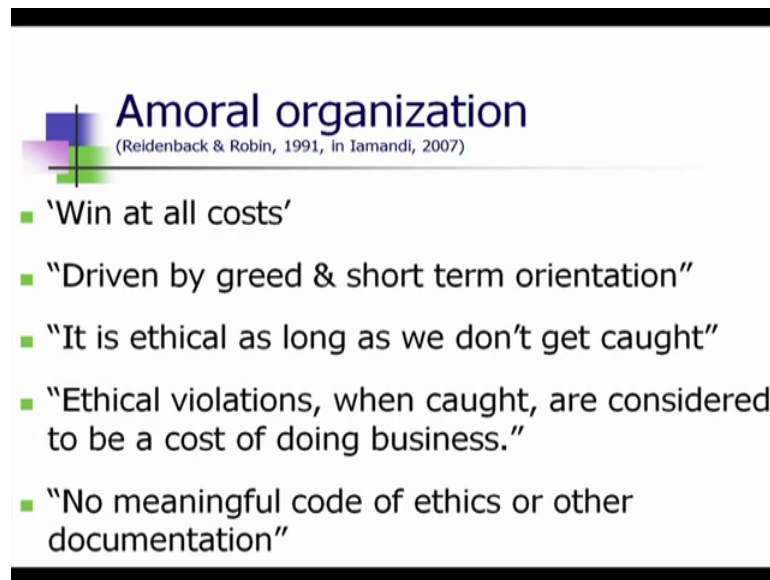


Stages of corporate moral development (Reidenback & Robin, 1991, in Jamandi, 2007)

- "Amoral organization
- Legalistic organization
- Responsive organization
- Emerging ethical organization
- Ethical organization"

Stages of corporate moral development various stages of moral development of an organization we are talking about ethics now and then we will take discussion from ethics to CSR various stages have been given. So, these are amoral organization legalistic organization responsive organization emerging ethical organization and ethical organization let us see what these are.

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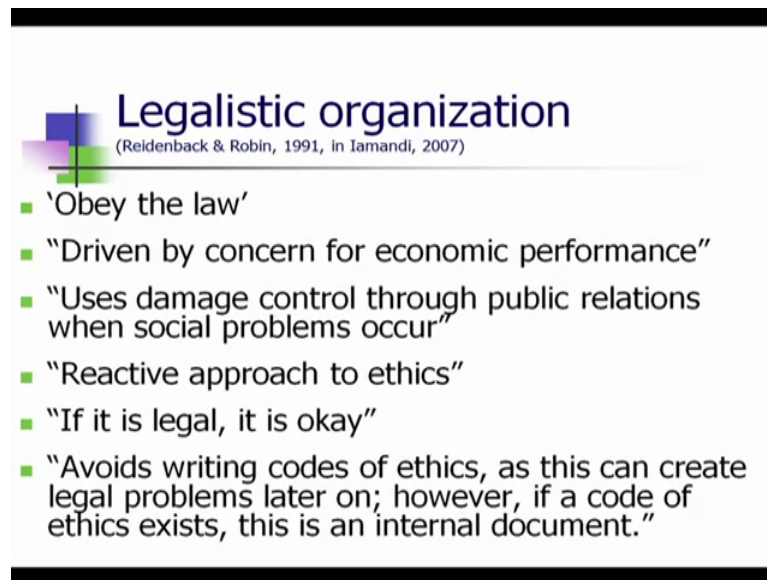


Amoral organization
(Reidenback & Robin, 1991, in Jamandi, 2007)

- 'Win at all costs'
- "Driven by greed & short term orientation"
- "It is ethical as long as we don't get caught"
- "Ethical violations, when caught, are considered to be a cost of doing business."
- "No meaningful code of ethics or other documentation"

The amoral organization stands for no not moral organization says that they must win at all ca costs this organization wants to win at all ca costs they are driven by greed and short term orientation I need to achieve these goal and I need to get this client I will use whatever strategy I have that is what they do it is ethical whatever we do is ethical as long as we do not get caught. So, we are doing the bare minimum to escape punishment from the law ethical violations when caught are considered to be a cost of doing business you get caught you pay the fine you suffer the punishment you come back and you keep doing the same thing again there is no meaningful code of ethics or other documentation nothing is written down that you must do this and you must not do this that is the amoral organization.

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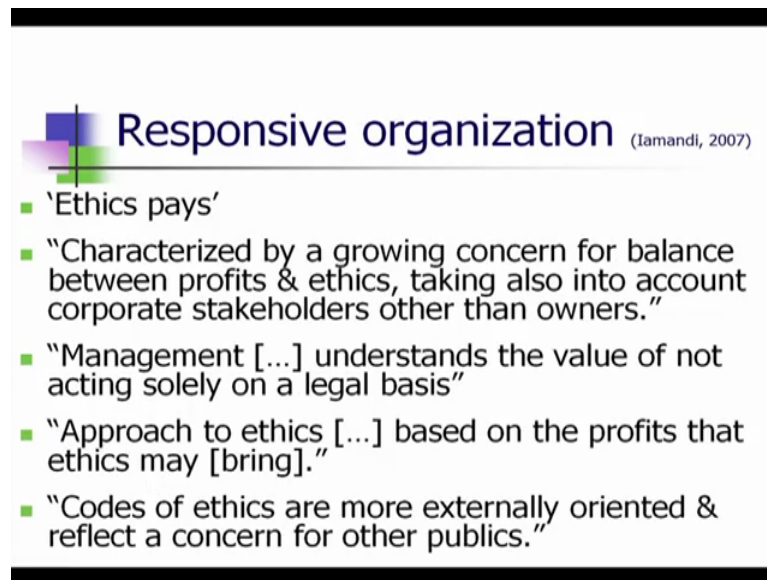
Legalistic organization
(Reidenback & Robin, 1991, in Jamandi, 2007)

- 'Obey the law'
- "Driven by concern for economic performance"
- "Uses damage control through public relations when social problems occur"
- "Reactive approach to ethics"
- "If it is legal, it is okay"
- "Avoids writing codes of ethics, as this can create legal problems later on; however, if a code of ethics exists, this is an internal document."

The next stage in the moral development of an organization is the legalistic organization you get caught you suffer problems you say what is the bare minimum that we need to do we need to follow the law. So, you bare the law in the first stage you do not do anything second stage you obey the law its driven for concern by its driven by concern for economic performance we need to make profit we also need to follow the law because the cost of not following the law is very high and it will interfere with my financial output. So, I must follow the law uses damage control through public relations when social problems occur something happens they use damage control through public relations and they appeal to the public and they try and recover.

Reactive approach to ethics; so, in legalistic organization the ethics the ethical behavior is a reaction something was wrong we are reacting 2 situations if its legal it is we are following the law if its within the rules its avoids writing codes of ethics as this can create legal problems later on why because somebody is going to hold you responsible they will say you have written this down please follow it. So, they avoid writing all legal codes of ethics and if they produce such a document it is for internal consumption only that is the legalistic organization.

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Responsive organization (Jamandi, 2007)

- 'Ethics pays'
- "Characterized by a growing concern for balance between profits & ethics, taking also into account corporate stakeholders other than owners."
- "Management [...] understands the value of not acting solely on a legal basis"
- "Approach to ethics [...] based on the profits that ethics may [bring]."
- "Codes of ethics are more externally oriented & reflect a concern for other publics."

The third stage is the responsive organization they realize that being ethical pays it is characterized by a growing concern for balance between profits and ethics taking also into account corporate stakeholders other than owners. So, it is not only following the law we really need to do what is right. So, we respond management understands the value of not acting solely on a legal basis if yes following the law is necessary, but we go a little beyond that and we do a few things that are right may be we will start seeing the benefit people will think nicely about us we will you know they will start trusting us trust will add to our profits. So, they start seeing this; the approach to ethics is based on the profits that ethics may bring if am ethical my earnings are more.

So, let me be ethic I do not believe in ethics, but because I have done something right even though the law does not mandated I see the fruits of my labor. So, I will do those things why because it is finally, adding to my profits codes of ethics are more externally oriented and reflect a concern for other publics what do people think of me. So, it is all about who is watching me what do they think of me they need to think of me you know you know very nice way that is that is the concern here people need to think well of me they need to think that I am a good organization and because they are thinking like that my I will get more profits. So, that is the responsive organization.

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Emerging ethical organization
(Reidenback & Robin, 1991, in Jamandi, 2007)

- 'Do the right thing'
- "Demonstrates an active concern for ethical outcomes, providing support & measures of ethical behavior, although it lacks organization & long-term planning."
- "Shared ethical values provide corporate guidance in some situations"
- "Corporate culture is less reactive & more proactive to social problems when they occur."
- "Codes of ethics become action documents."

Emerging ethical organization is I must do the right thing demonstrates and active concern for ethical outcomes providing support and measures of ethical behavior although it lacks organization and long term planning shared ethical values provide corporate guidance in some situations corporate culture is less reactive and more proactive to social problems when they occur codes of ethics become action documents. So, the organization really believes in doing a right things they or they are actively they are proactive with their ethical efforts and the need for being acknowledge by external agencies slowly veining away it is there, but it is not the only think they are doing it because they feel good about it.

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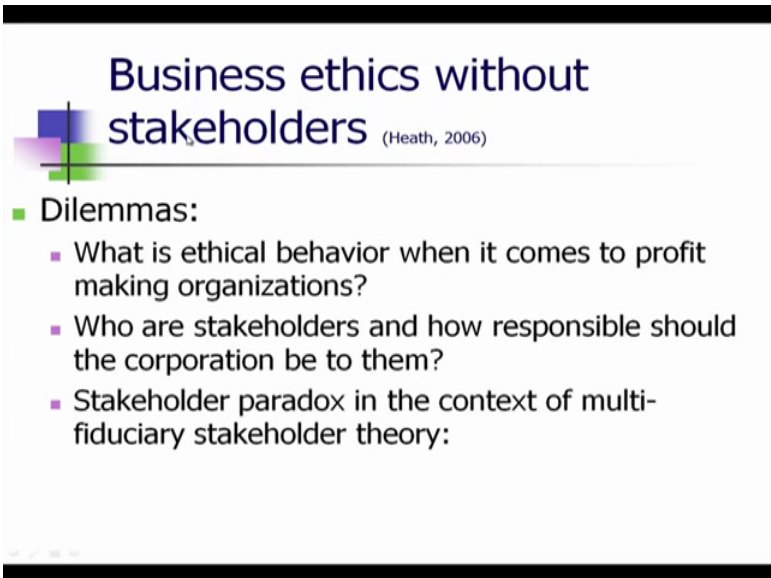
Ethical organization

(Reidenback & Robin, 1991, in Jamandi, 2007)

- 'Integrate ethics with economics'
- "Thoroughly integrates questions of ethical behavior with developing strategy & mission, thereby addressing the fundamental issue of organizational integrity."
- "Totally ethical profile, with carefully selected core values"
- "Corporate culture is planned & managed to be ethical."
- "Corporate codes focus on the ethical profile & core values."

And the last stage is where ethics become a part of the way you do things. So, ethics and economics are inter related you really do not see the difference being unethical is not a choice for the ethical organization unethical activities just do not take place being unethical is not a choice thoroughly integrates questions of ethical behavior with developing strategy and mission. Thereby addressing the fundamental issue of organizational integrity totally ethical profile with carefully selected core values corporate culture is planned and managed to be ethical corporate codes focus on the ethical profile and core values. So, that is what happens in an ethical organization.

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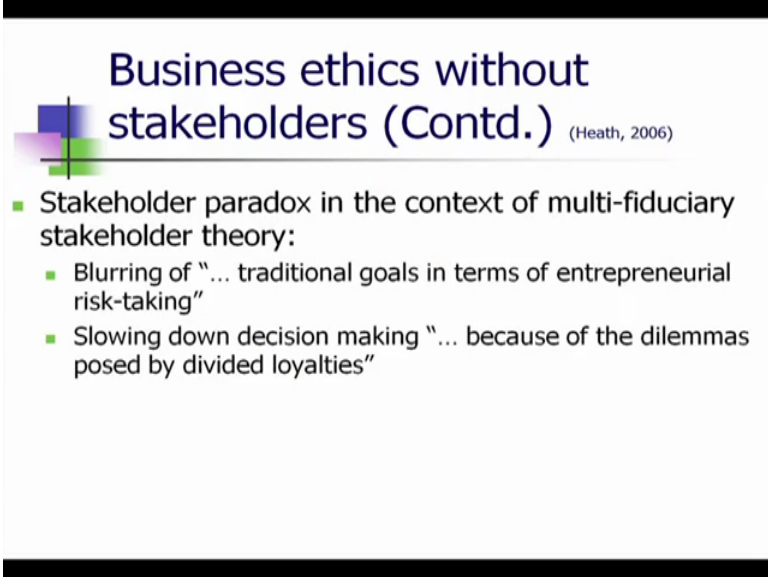
Business ethics without stakeholders

(Heath, 2006)

- Dilemmas:
 - What is ethical behavior when it comes to profit making organizations?
 - Who are stakeholders and how responsible should the corporation be to them?
 - Stakeholder paradox in the context of multi-fiduciary stakeholder theory:

Now, what happens when stakeholders are not there what happens to business ethics few dilemmas are faced how do you decide what is ethical behavior when it comes to profit making organizations who are the stakeholders and how responsible should the corporation be to them stakeholder paradox is something that we talked about stakeholder paradox in the context of multi fiduciary stakeholder theory.

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Business ethics without stakeholders (Contd.) (Heath, 2006)

- Stakeholder paradox in the context of multi-fiduciary stakeholder theory:
 - Blurring of "... traditional goals in terms of entrepreneurial risk-taking"
 - Slowing down decision making "... because of the dilemmas posed by divided loyalties"

So, how do we balance the needs of multiple stakeholders; stakeholder as far as stakeholder paradox is concerned there is a blurring of traditional goals in terms of entrepreneurial risk taking and slowing down of decision making because of the dilemmas posed by divided loyalties when we try to be to appeal to the needs of different stakeholders we run the risk of slowing our decision making down and there is a blurring of the goals because we are trying to you know the goal is to take entrepreneurial risks.

But we take the risks then we are we may be damaging we may be disadvantaging some stakeholders. So, one becomes confused you know there is a lot of pressure on the decision maker and that is when these things become a barrier. So, some literature has suggested that you know we must talk about not having the discussion is on I am not saying they are suggesting that we must remove all attention to stakeholders, but there are some critics who are saying do we really need to pay the much attention to stakeholders if yes how and why. So, that is all we have time for in this class and I hope

you enjoyed this and I hope I left you with more questions than you came into this class with if I have done that I done my job today.

Thank you very much for listening.