Business Ethics
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Lecture – 19
Managing stakeholder relationship

As we have discussed in the changing perspective of business ethics management, where the organizations are responsible for managing the social problems more focus towards managing the social problems, this can be subdivided into 3 steps. Setting up the standards are the code of ethics, second is dealing with the stakeholders properly, and third with the assessment of the things done of their processors followed and of course, fourth is formal and informal ways of managing the business ethics processes, how through different programs. Because if you go back to the definition of business ethics management, it consist of policies, practices and programs which are formally or informally like given directly by the organization as a voluntary approach to see that the things are done in a proper way and morally right way throughout the organization.

And then in the last discussion, we discussed about setting of particular standards that is the code of ethics which guides how the organization is going to function. In the global code of ethics also we saw like though there are differences in sometime of the interpretation of what is right and what is wrong. We have try to arrive at certain basic things which needs to be followed by all the organizations, and this is in agreement we find like respecting human values is the core values, respecting the local traditions, and also the understanding that it is a contextual factor of right and wrong are the 3 main consensus, which has come to.

And also in when you are talking of respecting the core values, we find like there are being different efforts to find out these core values. And mostly agreed upon values like there have been studies, there have been an effort which talks of the like interfaith declaration, interfaith declaration of the taking different religion orientation into consideration, which is found like justice, mutual respect, honesty and stewardship are the main values which are to be nurtured across, because this is generally acceptable by all faiths. In the Croix table; round table, we found like shared prosperity, then justice,

and civic responsibility are some of the core things guide values which have been accepted.

In the U N global compact, 9 principles have been arrived at which are universally accepted by most. And these covers the 9 principles are classified under 4 broad headings which talks of respecting the human rights, respecting the labor and associated principles with regard to it, respecting the environment and what is the steps taken by the organization in order to deal with the environment and also with the anticorruption; steps for anticorruption. So, the difference of these even global compact with the other areas, the other codes that have been arrived at is it is taken into consideration also one of the primary stakeholders, which is the environment.

If we seen to the different cores of ethics written where different organization, it is mainly focused towards how the employees are going to be have within a particular organization, given the values of the organization, the norms of the organization and expectations of the organization. What it is like once to do and how it wants to deliver its goods and services? But as we understand the scope of business ethics management is increasing, so we know it is not enough to have code of ethics which focuses towards only the role of employees within the organization. But this code of ethics of how the business is going to deal with others stakeholders also is very important a claims of which has been shown in this U N global compact. Fourth is we have to understand who are our stakeholders and how we manage the stakeholder relationship.

In our previous discussion of stakeholder theory in the last few modules we discussed like stakeholders, or individuals, or groups, who either affects or gates effected by the way that we do the business or by the products and services which is the output of the business. And the aim of the business should be to provide less of farm and more of benefit to the stakeholders and not to violate, but to respect the rights of stakeholders. With this, this is the normative theory of the stakeholder.

There are descriptive theories of stakeholders also which talks of how actually the business houses like interact with the different stakeholders, and how they take into consideration their different needs, based on the importance that this feel like they were having for their business. And instrumental theory of stakeholder, it talks of like the mutual interactions between the stakeholder and the firm, and what is beneficial to both

of them. Here we will have to understand like always it is not possible as stated in the normative theory to see to it at the needs of all the stakeholders are interest equally well at a certain point of time. And in many cases, it is required to prioritize amongst the stakeholders. If the stakeholders are more and what I can deal with at present time best or may resource constrains that I may be having, so it is required on the part of the organization to set some priorities based on which it is going to choose set of stakeholders, whose demands and needs, it is going to like answer too.

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Assessing stakeholder importance: an instrumental perspective

Instrumental perspective

- 'Stakeholder impact analysis enable a company to identify the stakeholders most crucial to its survival and to make sure that the satisfaction of their needs is paramount' (Hill and Jones 2001:45)
- 3 key attributes likely to determine perceived importance or **salience** of stakeholders (Mitchell et al., 1997)
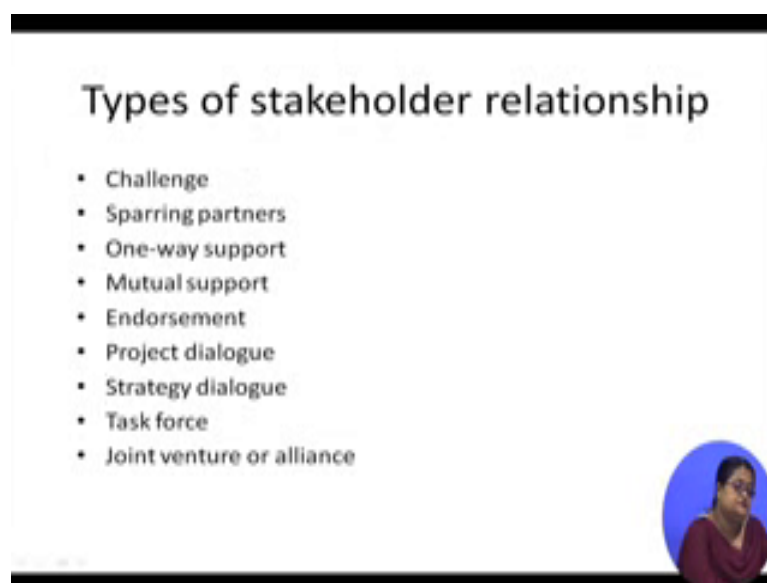 - Power
  - Legitimacy
  - Urgency

So, let us find out how this prioritization is being done. This prospective is called the instrumental perspective. So, this is also called stakeholder impact analysis, which helps the organization to identify the stakeholder who is more crucial to its survival, and to make sure that the satisfaction of the needs is paramount. Earlier, on the basis of these, the 2-3 stakeholders who were like home the organization thought to be of importance are the shareholders, the employees and the customers. But now with the changing nature of the moderns with the understanding of the networking of the stakeholders, other stakeholders have also been included within this like to understand who are crucial to its survival.

So, 3 important attributes which determined the perceived importance or salient's of the stakeholders are first is the power of the stakeholder, second is the legitimacy of the stakeholder, and third is the urgency. So, what is the power shown by the stakeholder,

what is the power with of the stakeholder in terms of their, whether they are linked to other influential stakeholders or not which may affect the forms functioning directly. So, it talks of the political power may be back and through political power or the power to move start mass movement all these things will determine whether that stakeholder is powerful enough or not and whether that power is detrimental to the functioning of the organization. So, what is the power dynamics between the stakeholder and the firm? If it sees like it is very powerful entity not by itself may be or by itself, if not by itself by the connections the network is it may be having, so that collective strength is more, then it is recognized as powerful.

Legitimacy is how much legitimate is the claim of the stakeholder that it is the stakeholder who is directly connected with the nature of the business or how the business is getting done is do affecting the stakeholder. So, the legitimacy of the stakeholder also needs to be like judged. And urgency how important is the demand how truly it is linked with the business processes that is being done. What is the allowable time for the harm to occur like if corrective measures are not taken, now we cannot arrest the harm produced by the business activities on the stakeholders. So, what is the urgency? So, these 3 things power, legitimacy and urgency determines which are the stakeholders like single or the groups who get selected they become a my salient stakeholders and the firm needs to focus on them, and address to the problems. This is called the instrumental perspective.

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Types of stakeholder relationship

- Challenge
- Sparring partners
- One-way support
- Mutual support
- Endorsement
- Project dialogue
- Strategy dialogue
- Task force
- Joint venture or alliance

So, we can understand firm has 2 way relationship with the stakeholder. Let us see, what are the different types of relationship that the firm shares with the different stakeholders? We find here listed are few types of relationships like challenge, sparring partners, one-way support, mutual support, endorsement, project dialogue, strategy dialogue, task force, joint venture or alliance. If we move from top-down, we find there is a shift from the stakeholders being in a conflicting relationship with the firm to being in a collaborative relationship with the firm.

So, when we you are talking of challenge, it is the stakeholders role is to challenge the business activities and processes. From sparring partners means they agree to come together, but sometimes there are healthy conflicts between the organizations and they need to address these conflicts. One-way support is where the firm is supporting the stakeholder to do some of its activities for what, which is being firm. Mutual support is where both the firm and the stakeholder are supporting each other to reach some of its activities or objectives.

Endorsement is where the there is paid or unpaid approval of the firm to some of the stakeholders, and they represent the cause of the firm. Project dialogue where the firm enters into some type of dialogue with the stakeholders to do some joint projects, strategy dialogue is where the organization starts picking up with the stakeholders, so the some strategy level decisions can be taken for a long-term. Task force is where for small work it, and the stakeholder relevant stakeholders and the firm come together to form a team to address the social issue at hand. Joint venture or alliance is where the organization comes to follow-up start follows-up partnership to jointly address certain social issue and do some find out certain ways of how to mutually function together to deal with the social issue at hand.

So, these are the different types of relationship that the organization may be having with the stakeholders. However, as we see move from the conflicting type of relationship to the collaborative type of relationship may be good in the sense like collaboration between the 2 bodies of the firm and the stakeholders help to firm in reaching the social objectives. But however, this collaboration may have some negative impact also.

Let us see, what are these negative impacts of firm stakeholder collaboration? The problems is than first is resource intensity if the collaboration of the firm happens with number of stakeholders, then it is a huge complex activity to be done. And the resource may be come up problem of how do we give resources for like executing these many number of projects all together? Culture clash is where the 2 different stakeholders may belong to 2 different cultures, and because it is required to collaborate we are doing so but inherently the Philip systems are different, and these may lead to a culture clash because both of cultures are not matching with each other.

When schizophrenia, this phenomenon is corporate have multiple identity. They are doing n number of functions together. So, if 2 organizations are equally like white spread and it has multiple objectives it may so happened for one of the objectives their collaborating to each other, but for a different objective they are fighting with each other or in conflict with each other. So, it sometimes leads to a feeling of what is the actual relationship of the firm with another stakeholder is it like that of are they in conflict or collaboration. These types of multiple identity and mix identity may give raise to a feeling of schizophrenia.

Uncontrollability because there are so many stakeholders and if the organization enters into like cooperative relationship collaborative relationship with all the stakeholder, so there are different projects going on different people are there of working together. And

it really becomes difficult to manage all things together. Cooperation by this process of increasing into partnership with the other stakeholders, if the stakeholder from the stakeholders view point each may be like getting more molded in the terms of what organization is trying to see in that or is going to sponsor for to promote for. And these will after such point of time, it so happens that the stakeholder is speaking the voice of the firm itself, and soon individuality is getting lost.

This is more particular with case of like NGOs entering or civic society organizations, civil society organizations, forming a partnership with the firm, because (Refer Time: 23:49) found mainly with the objective of voicing up. The voice of the society or the stakeholders who cannot speak for themselves and act as a mirror towards the organization to show them what they have taken care of, and what they are neglect. But if they enter into a joint partnership with the organization they are sometimes may develop some obligation and that will be talking more in accountability, then they lose their own objective and start speaking what the firm propagates that it wants to do. So, these types of things like in order to get entering to the partnership for the sponsorship money or other things are with there.

The firm the NGOs may try to orient themselves in the way like they get the partnership done established. But in the process, they loosed their individuality and may shift from the purpose for which it was bond like speaking for the voice of the stakeholder, who is underrepresented it whose needs are underrepresented in the cooperates can consideration of distributing benefits or it is mostly harmed by the organizations processes, but there is no damage controlled taken for it. So, this independence nature of decision-making may be lost while you are entering into partnership with the cooperate.

Next is when you are talking of accountability may be by entering into a partnership with the stakeholder. The firm is achieving its accountability towards the different stakeholders. But when it comes to the accountability of the stakeholder per say suppose for the civil society organization NGO, so etcetera, who are accountable mainly to the society at large. But here the accountability may shift to because they are taking donations or entering to partnerships with the organization whose activities if they were not involved in this partnership you may have been monitoring, and reporting, and evaluating, and criticizing whatever. So, because of this collaboration they be like sort of start supporting their objectives and rules there, and get disconnected from their

accountability towards the get disconnected from the accountability towards the main junk of the society for which they were representing, for whose to represent whose needs they were mainly formed.

So, due to these factors again there could be resistance from the society at large for the partnership, the collaboration to develop between different stakeholders and the firm because they want to them to be maintained you know in a independent way, so that the fairness of the processes maintained.

Next, when you are talking of the fairness of the processes, when you are talking of the collaboration and how far it is accepted not accepted by the organization and the society at large, how much it is ok for the organization and the may be civic society or civil society organizations NGOs to enter with the partnership to whom we should enter in to partnership and to what extent, all these we will be discussing in details while we are discussing the role of business ethics with different stakeholders per say. Here we are focusing into the when you are talking in this terms like how far it is acceptable, whether it is ok or not. Actually we are focusing towards accessing the ethical performance like to find out how for the performance is being effective or not, and what are the processes followed are not, whether these are ok or not and this will be the discussion of your next module.

Thank you.