Corporate Social Responsibility
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Lecture - 13
Who are Stakeholders?

Welcome back to the MOOC course on corporate social responsibility. My name is Aradhnamalik and I am helping you with this course. And we will be talking about in this lecture we will be talking about stakeholders, who are stakeholders, what do they do, how do they influence the organization and what this whole stakeholder theory of management is an how it applies to the stake to corporate social responsibility. So, that is what will be covering in this module. And there will be extended discussion on the stakeholder theory and its different facets and how that applies to CSR.

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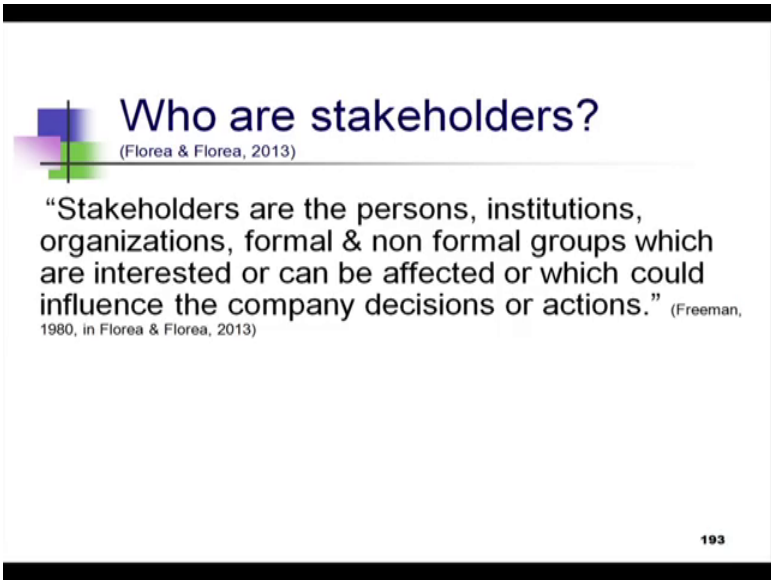

So, let us get on with it stakeholders and CSR. Who are stakeholders? We talked about who stakeholders are in the initial lectures. I will just repeat this. This is the definition that we discussed, this is an paper by Florea and Florea. Stakeholders are the persons institutions organizations formal and non formal groups which are interested or can be affected or which could influence the company decisions or actions and these are the stakeholders.

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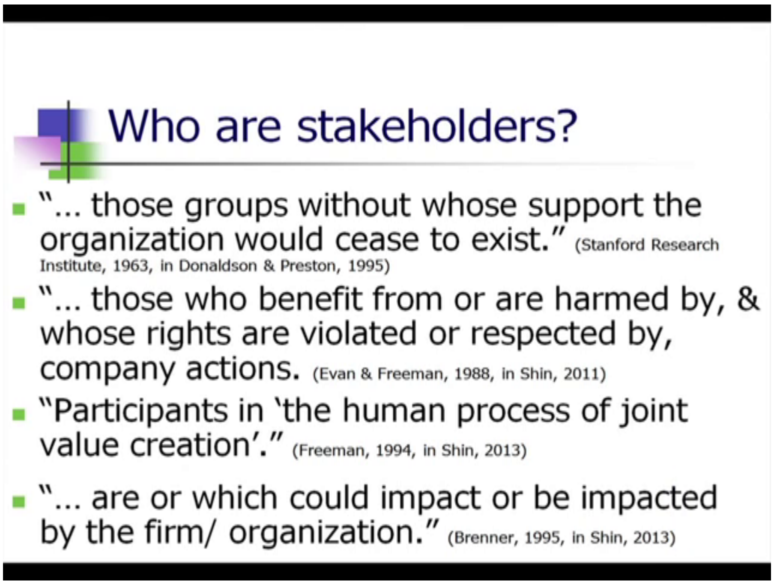

Some more definitions have been given and these are you know who are stakeholders here. So, stakeholders are those groups without whose support the organization would cease to exist. They are those who benefit from this there is a long list of definitions that is given in this paper by Shin that was written in 2013 in the context of integrated marketing communication. And I have picked up the definitions that have are going to be useful to you I will read some more from the paper itself.

So, stakeholders are those groups without whose support the organization would cease to exist. Now, this is the definition that was given by the Stanford research institute in 1963 it was quoted in other paper. Stakeholders are those who benefit from are harmed by and whose rights are violated or respected by company actions. Stakeholders are this was the definition given by Evan and Freeman in 1988. Stakeholders are participants in the human process of joint value creation another definition given by Freeman in 1994.

Then Brenner in 1995 pointed out that stakeholders are or which could are impacting or which could impact or be impacted by the firm or organization. So, anyone who is connected to the organization is stakeholders they are groups of constituents who have legitimate claim on the firm they exist to a contractual relationship meaning this apply critical resources to the firm and exchange for their personal needs that is a definition given by Hale and Jones in 1992. Then wicks and associates in 1994 said that stakeholders interact with and give meaning and definition to the company. So, various definitions have been given. Then Claxan in 1994 said stakeholders bare some form of risk as a result of having invested, some form of capital human or financial something of value in a firm or are placed at risk as a result of a firms activities.

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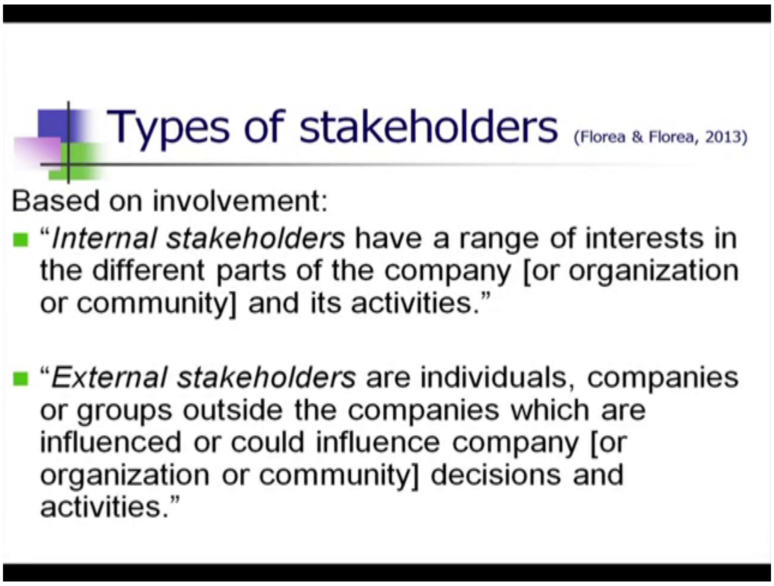

So, you know various definitions various ways in which this concept of stakeholders has been explored by different researchers. Different types of stakeholders we discussed this the initial lecture. So, I would not go into detail. Based on involvement, internal stakeholders have a range of interest in the different parts of the company or organization or community and its activities. External stakeholders are outside the company depending on the involvement, they are individuals companies or groups outside the companies which are influenced or could influence company or organization or community decisions and activities.

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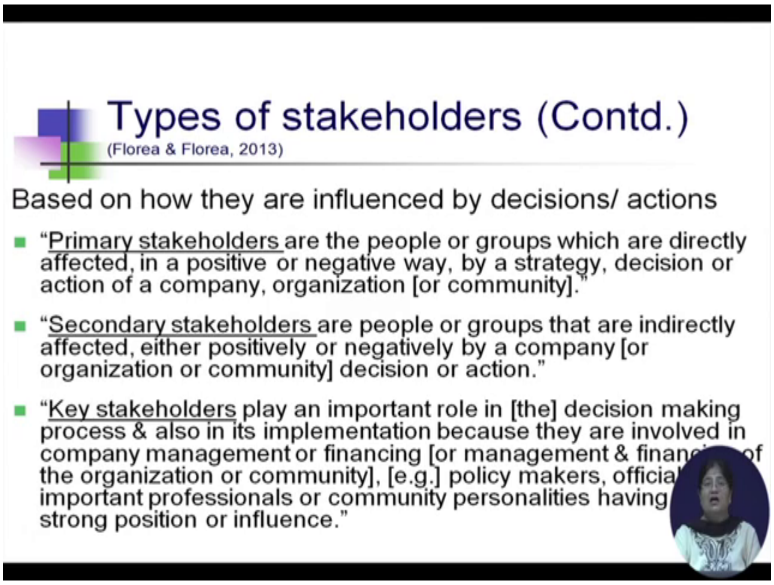

Based on how they are influenced by the decisions or actions, we talked about primary secondary and key stakeholders.

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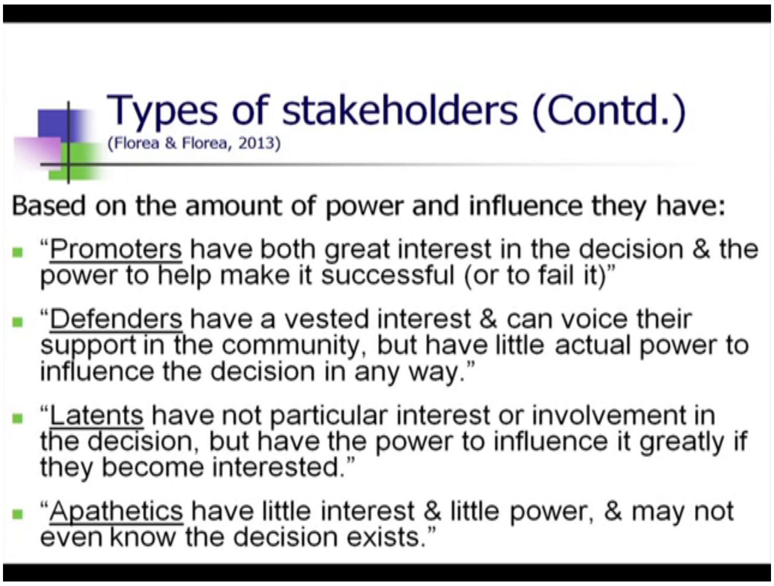

Based on the amount of power and influence they have we talked about promoters, defenders, latents and apathetics. So, promoters have both great interest in the decision and power to help make it successful or to fail it. Defenders have a vested interest and can voice their support in the community, but have little actual power to influence the decision in any way. Latents have no particular interest or involvement in the decision, but have the power to influence it greatly if they become interested. Apathetics have little interest and little power and may not even know that the decision exists. So, they are the wall flowers.

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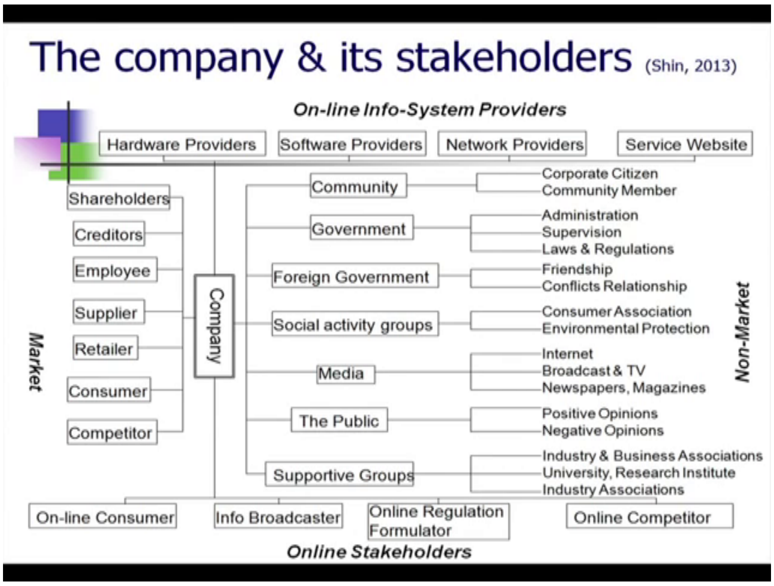

But then there is a one very interesting diagram that Shin has used in the context of integrated marketing communication strategy. I think that applies to the overall concept of you know what stakeholders are. So, I have taken this diagram from that paper that I will give you the complete reference here. Now, these days because every organization (Refer Time: 05:50) is required to have an online presence I think the facts mentioned here are quite applicable to most firms. So, you know various things are mentioned here, market, non-market, you have online information system providers you have online stakeholders because every organization is expected have an online presence. You have hardware providers, software providers, network providers and service website which is the part of the online system information system providers.

Then these are then connected to the company. So, the companies influenced by these. The companies any organization is influenced by the stakeholders on the left which are the stakeholders that influenced the market, these are the shareholders people who actually have own a part of the company the creditors the employees the suppliers the retailers the consumers and the competitor. So, these are the market forces acting on the company they have a market related stake in the company.

Then the company is then also you know there are online stakeholders. So, there are online information system providers and we have online stakeholders, here we have online consumers, we have information broadcasters, people who share the information with regarding the company with everybody else. We have online regulation formulators who determine what can go on the website and what cannot go on the website. We have online competitors people may you know the online presence acts as your advertisement for the rest of the world. It acts as information about your organization to the rest of the world, annual reports are available online, information about your company is online and can and will be used against in the court of law if and when required. So, your online competitors could you know get and edge over you through various means and I will just show you how these people can effect what happens there.

Then we have the company their influences the community. The society around it we have discussed this adnosiam. And community includes the corporate citizens we have talked about corporate citizenship and individual community members. Government, again the administration, supervision, laws and regulations the company is influencing the government you know the laws and regulations are made for us to regulate what we do. So, especially in our democracy where the government is bound to it obligated to listen to the voice of a citizens including corporate houses.

So, foreign government, it has an impact on the foreign the friendship the comradery that we have with our foreign colleagues across the border. And conflicts relationship we may be conflicting with some country, but then we may also have a business relationship with them and that is influenced by what the company does and how it conducts its business. So, you know that also has an impact I mean business does not stop because of it may business is likely to stop, but then business also likes to continue you know despite cross border issues, so that can affect you know what the company does can affect the conflicts relationship.

It can affect social activity groups you know what the company does for the society can affect. Social activity groups a consumer associations environmental protection child labour, you know bonded labour, forced labour wages all of these things are part of the society. So, consumer association are there, what you send out of course, what that will be covered in employees. But then again you know the social activity groups will determine or will help the company understand, what the company needs to do for the benefit of the society for the company has to give products that are useable, that are poor that are not that are of good quality that will last. And it has to live up to its words on one side that are loss on the other side there are social activity groups. So, they are consumer associations, consumer protection forums are there.

Then the company also affects the medias sends out information into the media the media is the internet newspaper television other forms of broadcasting, newspapers are there sorry radio is there, newspapers and magazine are there. So, board bill boards are there all kinds of things are there. The public again the company is being influenced by and is influencing the public positive opinion, negative opinion. So, all of these things are affecting the company being affected by these are two-way relationships positive and negative opinions of the people about the company. It does not have to be consumers, it does not have to be suppliers or creditors or any of the people here on the right side, but just the general opinion about the company can influence the company.

Then supportive groups, you have industry and business associations to protect the org to protect the interest of the company against false allegation. You have university and research institutes, we are teaching things in our colleges and schools and about you know we are using case studies, we are using examples in real classrooms. So, the supportive groups are again having an impact on the company what the company does is then communicated through the supportive groups. Then industry associations are there. So, all of these things are then influencing what the company does and being influenced by the company.

Then this is then affecting the online consumer the company of course, these are the online stakeholders here. So, these are non market stakeholders on the right side, and here these are the online stakeholders. And all of these people are all of these groups all of these communities are being affected by the organization. So, one has to be very, very careful about what one sends out, what the messages one sends the kind of work, one does the rules and regulations of the law of the land, you know the society and how it affected by what the company does. All of these things are going to make a difference to these, these lists are not exhaustive, so all of these things are going to make difference to these and many more.

So, you when we talk about stakeholders I am asking you to look around and see you know where you can find more examples of stakeholders. You may be able to put them into any of these categories, you may come of these category share it with us and we can just add to this list. But this is one of the most comprehensive diagrams I found in the literature regarding stakeholders and different types of stakeholders organizations have. So, I thought I would share it with you. Then what kinds of benefits to stakeholders demand.

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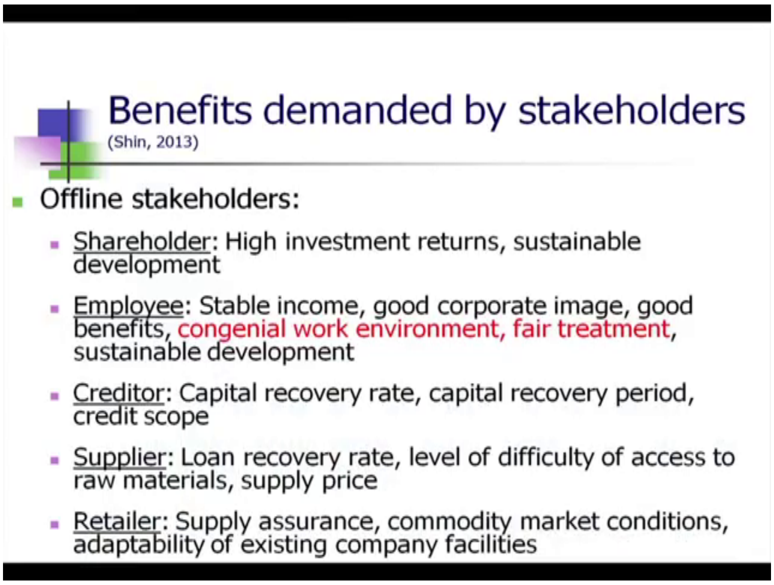

Now, we know who the stakeholders are we have some examples of stakeholder listed. Now, I will give you some examples of the benefit that are demanded by the stakeholders. Stakeholders, shareholders will demand high investment returns, sustainable development. Shareholders will demand high investment returns sustainable development. Employees will demand stable income good corporate image good benefits and I have added two more that were not in the list provided by Shin. So, congenial work environment fair treatment, sustainable development, non discrimination all of these things are the demands of the employees.

Creditors, people who give money who invest money in the company will demand the capital recovery rate, they will want to know what recovery period is, the scope of their credit you know what is it applicable to. The suppliers will wants to know the loan recovery rate how soon can they get paid for the material they supply to your organization, level of difficulty of access to raw materials, supply price. Then the retailers will need supply assurance, commodity market conditions, adaptability of existing company facilities, you know whether they can sell what you are giving to them what you are expecting them to sell. So, consumers will demand high quality goods, good service low price, ease of use.

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The competitors will demand price levels you know they will need to know where they can fix the price of the same thing that they are selling. And what are your price level conditions of commodity production and competitiveness you know where do they stand in the market and there are certain mandatory disclosures that everybody has to abide. By the government will need the company to abide the law timely and full payment of taxes. The foreign government will need the company to protect interests of domestic enterprises access to foreign exchange earnings. So, you know these are some of the examples that are given here.

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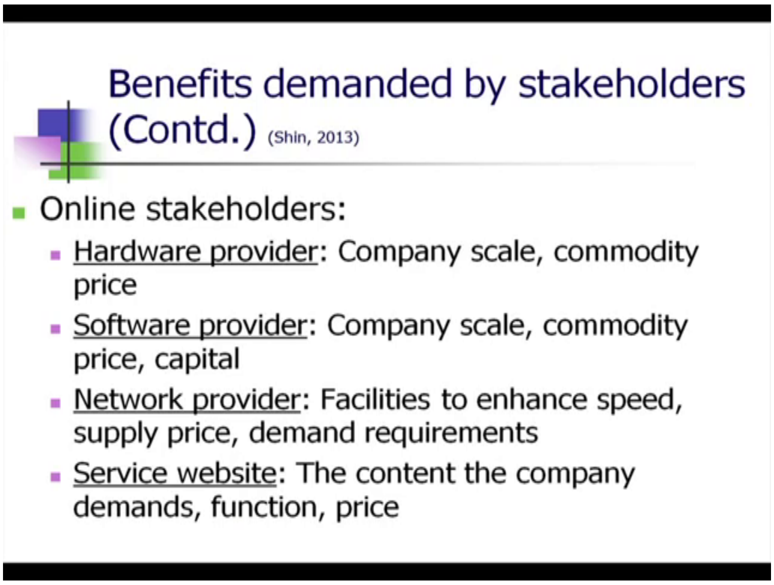

Now, the online stakeholders will need to know you know the hardware provider will want to know the company scale, commodity price. Software provider will need to know the company scale, commodity price and the capital that companies willing to invest in the software to maintain its online presence. Network provider will need to need facilities to enhance the speed, the supply price demand requirements. The service website will need or person who maintains the service website it will need to know the content the company demands the function what it intends to do with its online presence, the price.

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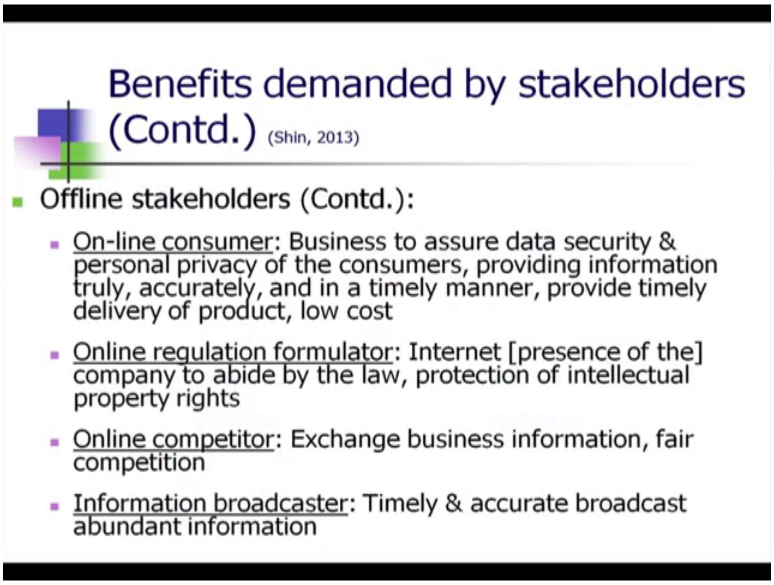

Then we have online consumers who will the business to assure they will need to know you know how they can assure data security and personal privacy of the consumers. So, they will need the business to assure data security and personal privacy of the consumers when you buy something from some website you want to know that your credit card number and details are in safe hands. So, what you are buying is going to be confidential, providing information truly accurately and in a timely manner, providing timely delivery of product, low cost.

Online regulation formulator will need to know the internet presence of the company on the internet, the company to or the online regulation formulator will need the company the presence of the company on the internet to abide by the law protection of intellectual property rights. Online competitors will need exchange business information, fair competition. Information broadcaster will want timely and accurate broadcast and abundant information. So, all of these things are demanded by the stakeholders at different levels. We have not covered all stakeholders, but I am just trying to give an idea of how stakeholders can influence what is going on.

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And there was a paper very interesting paper that was written by Frooman. So, you know he talked about you know once we know what stakeholders can demand we know what they can control also. So, how do stakeholders influence firm performance and this was a paper by Frooman and I thought I would share this with you. So, why are stakeholders so important you know that is what this paper talks about, why are stakeholders so important.

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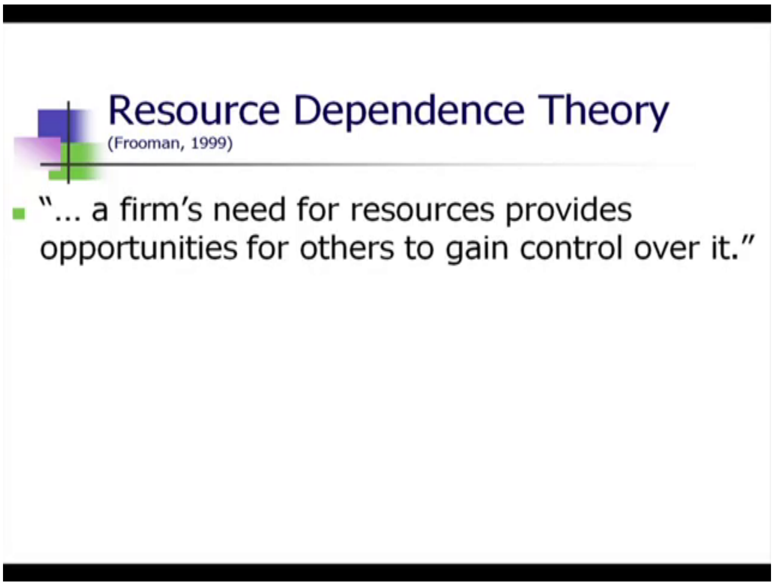

Now, this you know the stakeholder influence the concept of stakeholder influence draws from the resource dependence theory, which states that the firms need for resources provides opportunities for others to gain control over it. So, we need resources as an organization and the fact that are need is public you tell people that I need something I cannot function without it that becomes your vulnerable spot. It happens even in our personal life. This becomes our very, very vulnerable spot. So, you know it gives provides opportunities for others to gain control over you because you say I am deficient. When do we say I need something because when we do not have it? So, we say yes I need this from the market. So, somebody will say ok, if I need to control you I need to capture or I need to control what you need, so you will depend on me.

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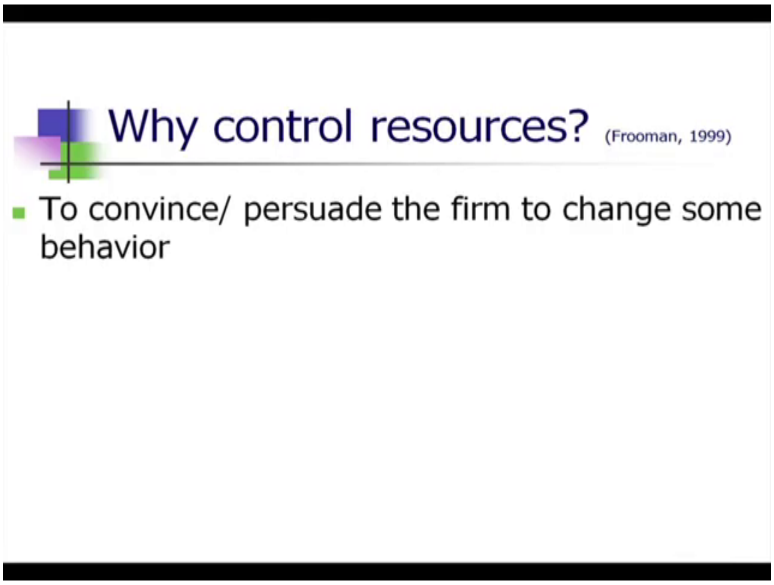

Why people control resources why do stakeholders control resources to convince or persuade the firm to change some behaviour that it is indulging in, so that is the very basis for negotiation for persuasion. You know why do we interfere in other people affairs because we want them to change something that could be affecting us. You know stakeholder means I have stake in the organization I do not like something that the organization is doing and I want the organization to change its behaviour. So, that is when I decide you know I request the company and the company says I would not do it and then I say ok so well I will have cut off you oxygen supply I will have to reduce your access to water. So, you will listen to me. So, it is a pressure tactic in some way.

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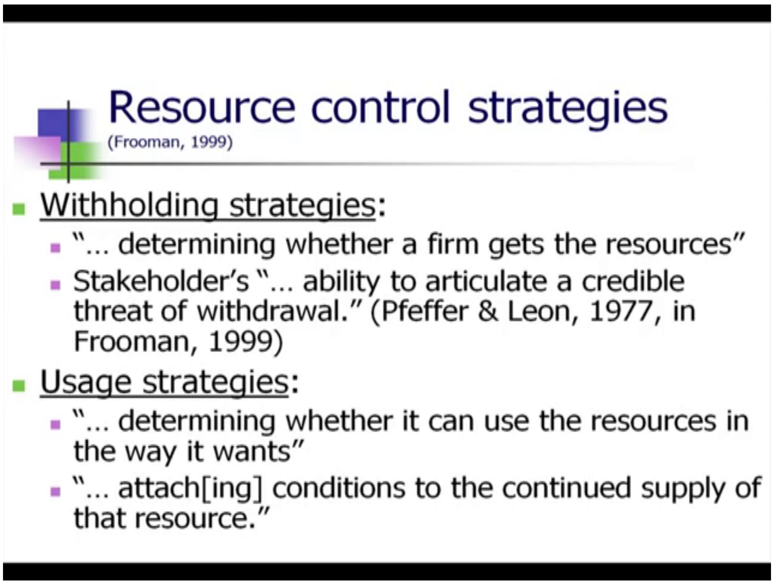

Now, various resource control strategies Frooman says there are two types of resource control strategies withholding strategies and usage strategies. The either with hold the resource we control the resource by not giving it to the organization. So, we say you need water I will cut off your water connection; you need electricity I will cut off your electricity connection. Labour you know why do we have strikes that is the withholding strategy, why do labour union strike. Airline pilot say we will not fly your aircraft why because flying the aircraft requires the specialize skill, we are the ones who have that skill.

If we do not put that skill for use by you will not make any money which is the reason why you are in the business you are in airline organization you own aircraft that fly that take passengers, you make money by flying passengers from one point to another point. So, pilot say well this is what your profits depend on ok, if we want you to do something what we will do is we will all of us get together and say we will not fly aircraft till you listen to us. We are withholding the use of our skill by you so that is a withholding strategy.

Usage strategy is you put more regulations in place. So, they say well if you want us to we will not say taking the same example, we will not say that we will not fly the aircraft we say to fly the aircraft these are the additional facilities that we need. So, the pilot say well if you want us to fly the aircraft, we will need these additional facilities. I need a full night rest in a comfortable place that is not you know where there is no stress. So, I can fly the plane for say 14 hours New Delhi to New York flight, you know that is 12 to 14 hours. So, half way across the world I am taking plane load may be say 300 to 400 passengers, I need to rest, I cannot do it at home. I need you to provide me with a comfortable resting place where I can put my feet up and can get my 8 hours of rest. I can freshen up; I have no distractions. The next day I will be ready for duty. I will be there I will be alert because all of these people lives depends on me.

In the aircraft, I will need place to laid down comfortably, so that if I take a break you know the copilot will handle it, but then we will take breaks. And we will need a comfortable place to laid down. We will need food you give us all this, we will fly it, so that is usage strategy you want us to use our skills you need to give us this, this, this, this, this that is the usage strategy. We are not saying we will help you we will we will use our skill for your profits, but we need additional facilities for us to use our skills to their maximum capacity that is usage strategy that is the resource control strategy.

Now, withholding strategies determine whether a firm gets the resources. Usage strategies determine whether it can use the resources in the way it wants. You want us to work fourteen hours no problem give us a room to rest in a five star hotel with boiled food at night. So, our tummies do not tremble in the morning, we will go fly your aircraft. And make sure that nobody disturbs us, there are no phone calls after 8 pm and I will be ready for duty at 6 in the morning no problem at all if you give me a complete night rest that is one way of controlling the resources.

Withholding strategies determine the stakeholders ability to articulate a credible threat of withdrawal. When can the stakeholder walk away the stakeholder can say I will put everything at stake and I will walk away, I will leave. When can the stakeholder do that the stakeholder should have the power to do that? The stakeholder should have the power to say I will leave this pilot say well if you do not listen to me I will go to another airline. So, I have another job in hand. Now, a pilot who does not have another job in hand cannot say that, but the pilot who has excellent record can say well if you do not given to my demand, I will go to another airline. So, the stakeholders ability to articulate to convince the organization that there is a credible threat of withdrawal will result in withholding strategies. Attaching conditions to the continued supply of that resource will result in usage strategies.

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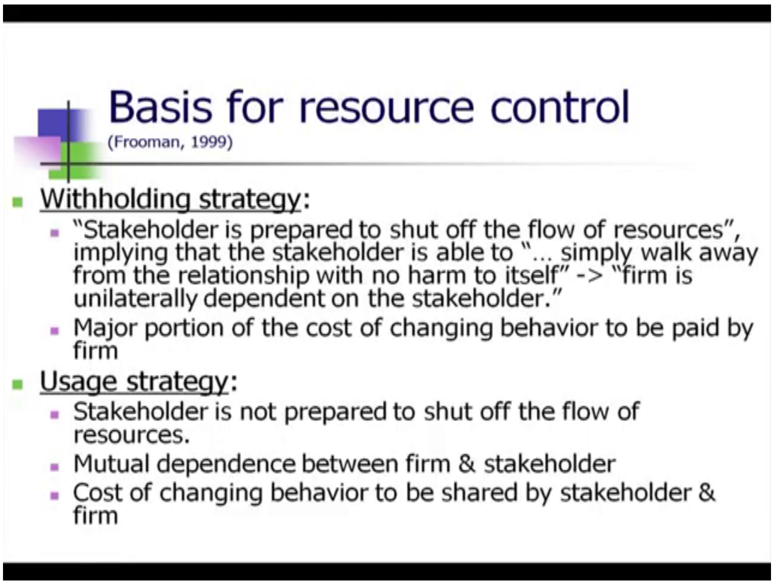

Now, withholding strategy is what are the basis for resource control. The stakeholder is prepared to shut off the flow of resources. Implying that the stakeholders is able to simply walk away from the relationship with no harm to itself which implies that the firm is unilaterally dependent on the stakeholder. The stakeholder is able to say that only when the stakeholder is the one that the organization is dependent on. A major portion of the cost of changing behaviour is to be paid by the firm. So, the stakeholder does not have to do anything, the stakeholder says pilot says I will go. So, you will have to bear the cost of recruiting another pilot training them then putting them in the air. I am loosing nothing I will go to another airline they will pay me more than you what they will may at least has much as your paying. So, I have do not stand to lose.

Usage strategy is used when the stakeholder is not prepared to shut off the flow of the resources. I do not have another job in hand. So, I say please give me all these; otherwise you know there could be a risk. Mutual dependents between the firm and stakeholder, the organization needs pilots and the pilots need the job, so there is mutual dependence.

The cost of changing behaviour is to be shared by stakeholder and the firm if the pilot leaves the job the pilot will have to sit at home and look for another job. The firm all will also stand to suffer. So, both of them say well we will come together and the cost of changing behaviour is to be paid the firm says we will give you these facilities, but you will have to be ready for work at 3 o clock in the morning. Pilot says ok, if you give me the facilities I will be. So, the cost is borne by both people.

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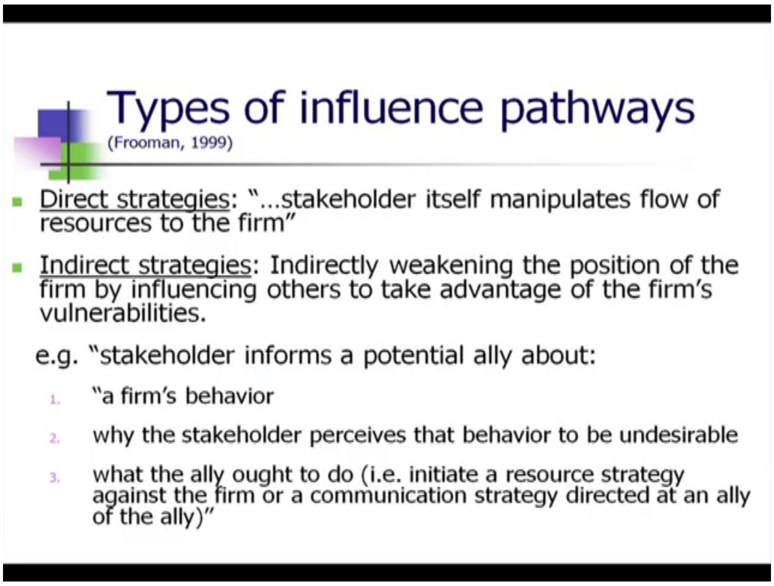

Now, types of influence pathways, there are direct strategies the stakeholder itself manipulates the flow of resources that is the direct strategy. Indirect strategies indirectly weakening the position of the firm by influencing others to take advantages of the firms vulnerability. For example, the stakeholder informs the potential ally about a firms behaviour and says you know so and so the firm is doing this. Why the stakeholders perceives the behaviours to be undesirable they are doing this and that is harming the environment. So, why do not you go ahead and do the same thing in a way that is does not harm the environment that is an indirect strategy.

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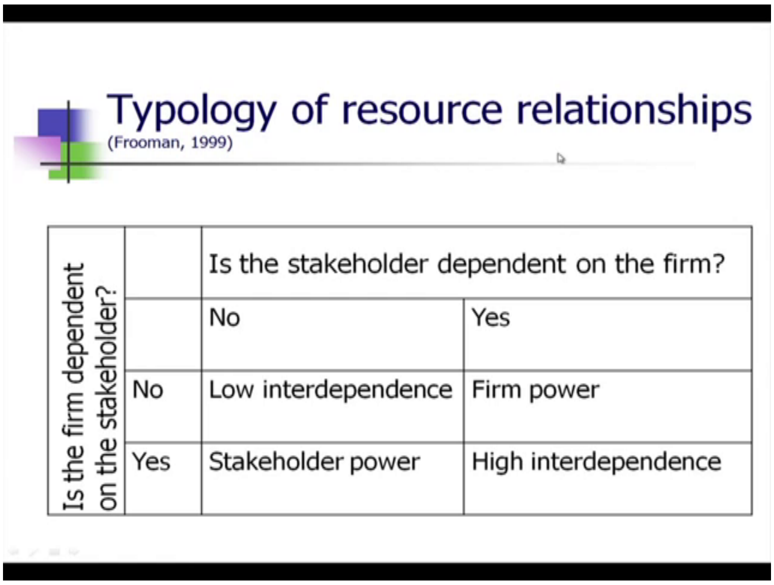

Typology of resource relationships

(Frooman, 1999)

Is the firm dependent on the stakeholder?		Is the stakeholder dependent on the firm?	
		No	Yes
	No	Low interdependence	Firm power
	Yes	Stakeholder power	High interdependence

Typology of resource relationship is the stakeholder dependent on the firm. If the stakeholder is not dependent on the firm and the firm is not dependent on the stakeholder then there is low interdependence and the behaviour is not likely to change. If the stakeholder is dependent on the firm, but the firm is not dependent on the stakeholder then the firm has the power, the pilot says I will leave the job and go and the organization says go I have ten others pilots waiting to take your job. So, the firms exerts the power, the pilot does not have another job to go to the firm says well the pilot says give me a five star hotel to stay the night and the firm says I cannot afford it, why there is somebody else who is willing to stay in a three star hotel. So, you that someone come and take your place. So, the firm exerts a power on the stakeholder.

If the stakeholder is not dependent on the firm, but the firm is dependent on the stakeholder then the stakeholder has power. Pilot says I will leave your job and go, the firm does not have another pilot waiting to take the job, if this pilot leaves then the firm one plane will not fly. So, the stakeholder has the arm twisting capacity. If the firm is dependent on the stakeholder and the stakeholder is dependent on the firm then there is high interdependence, both of them need each other. The pilot does not have another job firm does not have another pilot both of them know this, they will listen to each other and both will make some adjustment. So, this is the way stakeholders influence firms.

Now, in the next class what we will do is we take these concepts and see how they apply to the concept of corporate social responsibility. So, I hope you enjoyed this lecture. I urge you to think more about stakeholders look around in your environment and see you know it does not stakeholders do not necessarily to need to apply to firms they apply to every aspects of our daily lives. So, just see how can take these concepts and how they can apply to the life around you, and come back with some more thought and this. We will discuss some more on or we will discuss more about how stakeholders affect, the corporate social responsibility activities of the organization.

Thank you very much for listening.