Chapter 3
Stakeholders and Corporate Social Responsibility

Understanding Business Ethics
Stanwick and Stanwick
2nd Edition
When is Fair Trade Not Fair?

• In the United States, TransFair is the organization that certifies companies that can have the Fair Trade logo on their products.

• The Fair Trade logo is an indication that farmers at the coffee company received a “fair wage” for their work through the higher prices that are charged for the product.
When is Fair Trade Not Fair?

• The CEO of TransFair USA stated that the program allows the farmers to deal directly with the wholesaler, eliminating up to five different middlemen

• Critics of the Fair Trade program state that the farmers are not the beneficiaries of the additional profit

• Costa Coffee and Starbucks both used Fair Trade coffee
What is a Stakeholder?

• A. A. Berle
  – Stated that all of the powers that are given to a corporation are to be used to create benefits in the interest of the shareholders
  – Argued that managers should consider themselves trustees and guardians of investments made by the shareholders
Stakeholder Theory Development

- E. Merrick Dodd:
  - Argued that corporations are allowed to become legal entities because they serve a purpose to the community instead of just providing opportunities for financial gain by their owners
Stakeholder Theory Development

• Friedman

  – “The Social Responsibility of Business is to Increase its Profits”
  – Argued that social responsibility is a fundamentally subversive ideal and that the only social responsibility a manager has is to enhance the level of profitability of the firm
Stakeholder Theory Development

• Edward Freeman
  – Believed that stakeholders were any individuals or groups that can impact or be impacted by the actions of the firm
  – Broadened definition of stakeholder to encompass any individuals or groups that have a vested interest in the operations of the firm
Stakeholders

• Any group that has a vested interest in the operations of the firm
  – Traditional stakeholders include employees, suppliers, stockholders, customers, the government, local communities, and society as a whole
Moral Management and Stakeholders

• Managers can be classified based on three types of moral values
  – Immoral
  – Amoral
  – Moral
Immoral Manager

• Does not care how his or her decisions impact the stakeholders and actions actively counter to what is the right and ethical thing to do
  – Recent examples are Ken Lay, Bernie Ebbers, and Dennis Kozlowski
Amoral Manager

• Does not focus proactively on ethical issues nor does he or she try to purposely go against the social and legal norms that are expected of the firm by society
  – Example includes police department having stringent height and weight requirements for potential applicants
Moral Managers

• Those decision makers who understand the importance and relevance of considering ethical issues when they are making decisions
  – Proactive in presenting ethical leadership to the firm’s employees and other stakeholders
Identifying Importance of Stakeholders

• High-priority stakeholders have the following three attributes
  – Power
  – Legitimacy
  – Urgency
Stakeholder Impact on Organization

1. Stakeholders establish expectations about corporate performance
2. Stakeholders experience the effects of corporate behaviors
3. Stakeholders evaluate the effects of corporate behaviors on their interests
4. Stakeholders act upon their interests, expectations, experiences, and evaluations.
Triple Bottom Line Reporting

• Expands traditional financial reporting to include environmental and social reporting
  – People
  – Planet
  – Profit
The Benefit Corporation

- A new type of corporation that addresses issues related to financial, social, and environmental objectives

- Three required criteria
  1. Must meet social and environmental standards
  2. Must meet higher legal accountability standards
  3. Must build business constituencies for public policies
Stakeholders: Suppliers

• Example: Intel’s Supplier Ethics Expectations:
  1. Supplier must be in strict compliance with law
  2. Supplier must have respect for competition
  3. Supplier must not have any actual or perceived conflicts of interest with any other party

• Outsourcing – assigning a function or task that was previously done within a company to an external third party
Stakeholders: Customers

• Four critical areas in firm and customer relationship where ethical behavior must be the norm
  1. The manufacturing process
  2. Sales and quotes
  3. Distribution
  4. Customer service
Stakeholders: Government

• Primarily based on compliance issues
• Government has the authority to “punish” the firm through fines and possible prison terms for employees within the firm
Stakeholders: Local Community and Society

• Focuses on issues in which “quality of life” can be negatively impacted
  – For example, firms releasing high levels of pollution into the air or into the water would be of concern to the local communities.
Corporate Social Responsibility

• The obligation companies have to develop and implement courses of action that aid in social issues that impact society
Components of Corporate Social Responsibility

- Economic Responsibilities
- Legal Responsibilities
- Ethical Responsibilities
- Discretionary Responsibilities
Firm Configurations to Address Stakeholder Issues

- Skeptical Firm
- Pragmatic Firm
- Engaged Firm
- Idealistic Firm
Types of Corporate Philanthropy

- Peripheral Philanthropy
- Constricted Philanthropy
- Dispersed Philanthropy
- Strategic Philanthropy
Questions for Thought

1. Why is fair trade an ethical issue? What are the competitive advantages of fair trade? What are the potential problems with fair trade?

2. Identify all of the different stakeholder groups and comment on their roles in corporations.

3. Why is a firm’s corporate reputation important? Explain how a company can quickly lose its positive corporate reputation.