The Corporation and Its Stakeholders

The Business and Society Relationship

- **Business**: Any organization that is engaged in making a product or providing a service for a profit

- **Society**: Human beings and the social structures they collectively create.
  - Biz is a part of society but at the same time is a distinct entity separated from the rest of the society with clear boundaries.

- Business and Society are highly interdependent. Biz involve in ongoing exchange with its external env. Biz recruit workers, buy supplies, borrow money, pay tax, sell products/services.
Business and Society – An interactive social system

- General Systems Theory (GST) from Biology to explain this relationship; first introduced in 1940’s
  - GST suggests that organisms cannot be understood in isolation, even though they have clear boundaries; they can only be understood in relationship to their surroundings
  - Adapted to management theory means that business firms are embedded in a broader social environment with which they constantly interact
    - Business and society together form an interactive social system
    - Each need and influence each other.

Business and Society: An Interactive System

*Figure 1.1*
Two critical questions:

1. What is the purpose of the modern corporation?
2. To whom, or what, should the firm be responsible?

Firm is the property of its owners
Purpose is to maximize returns to shareholders
Shareholders’ interests are paramount and take precedence over all others
Managers and directors are agents of shareholders. They have no obligations to others except those specified by law.
Make as much money while confirming to the basic rule.
**Stakeholder Theory of the Firm**

- Contrasting view: “Stakeholder Theory of the Firm”
  - Argues the corporation serves a broader purpose, to create value for society
  - Must make profit for owners to survive, however, creates other kinds of value too
  - Corporations have multiple obligations, all “stakeholder” groups must be taken into account

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**The Stakeholder Concept**

- A **stakeholder** refers to persons or groups that affect, or are affected by, an organization’s decisions, policies, and operations
- A **stake** is an interest in – or claim to – a business enterprise
- Businesses are embedded in networks that involve many groups with such a stake
The Stakeholder Concept
A Tip for Understanding

- Term **stakeholder** is NOT the same as **stockholder**
- Words sound similar BUT are not the same
- **Stockholders/shareholders** are one of several kinds of **stakeholders**.
  - Shareholders – indiv that own shares of the company

Market and Nonmarket Stakeholders

- Stakeholder groups can be divided into two categories:
  1. Market stakeholders
  2. Nonmarket stakeholders
Market stakeholders

- Market stakeholders are those that engage in economic transactions with the company as it carries out its primary purpose of providing society with goods and services
  - Sometimes referred to as primary stakeholders
Nonmarket Stakeholders

- **Nonmarket** stakeholders are people or groups who—although they do not engage in direct economic exchange with the firm—are affected by or can affect its actions
  - Sometimes called secondary stakeholders
### Exhibit 1.B Stakeholders: Nature of Interest and Power

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Nature of Interest — Stakeholder's Wishes To...</th>
<th>Nature of Power — Stakeholder Influences Company To...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major Stakeholders:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>Become stable footing in firm</td>
<td>Provide opportunities for employees, remove undue pressure</td>
</tr>
<tr>
<td>Shareholders</td>
<td>Receive a satisfactory return on investments (dividends)</td>
<td>Possibly buy, sell, or retain stock</td>
</tr>
<tr>
<td>Customers</td>
<td>Receive fair exchange, value, and quality for money spent</td>
<td>Providing guidance from customers</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Receive regular orders for goods</td>
<td>Relating to current orders if outside of business arrangement</td>
</tr>
<tr>
<td>Naturally Interests</td>
<td>Receive quality goods at a fair price of value</td>
<td>Buying from other suppliers</td>
</tr>
<tr>
<td>Others</td>
<td>Other valuable products that consumers need and value</td>
<td>Recommitting companies to guide us in our purchasing and production of goods</td>
</tr>
<tr>
<td>Communities</td>
<td>Receive equal treatment from business</td>
<td>Engaging in business that reflect positive community values</td>
</tr>
</tbody>
</table>

### Exhibit 1.C Stakeholders: Nature of Interest and Power

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<tr>
<td>Nonmarket Stakeholders:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community</td>
<td>Be appreciated (adequate is the condition)</td>
<td>Relating to existing, new residents</td>
</tr>
<tr>
<td>Antics</td>
<td>Monitor company actions and policies to ensure that they conform to legal and ethical standards, and that they protect the public's welfare</td>
<td>Engaging in activities that affect the public's welfare</td>
</tr>
<tr>
<td>Media</td>
<td>Select the public image of the company</td>
<td>Providing information that affect the public's welfare</td>
</tr>
<tr>
<td>Business Support Services (e.g., trade associations)</td>
<td>Provide research and information that will aid the company in industry performance in a changing environment</td>
<td>Engaging in activities that affect the public's welfare</td>
</tr>
<tr>
<td>Governments</td>
<td>Provide economic development incentives</td>
<td>Engaging in activities that affect the public's welfare</td>
</tr>
<tr>
<td>The Natural World</td>
<td>Provide social values</td>
<td>Engaging in activities that affect the public's welfare</td>
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</tbody>
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International institutions encouraging CSR standards

- Transparency international
- International business leaders forum
- World economic Forum
- Caux Roundtable

Caux Round Table

- Founded in 1986 by Frederic Phillips former President of Phillips Electronics and Oliver Griscard’ Estaing former Vice Chairman of INSEAD
- The Caux Round Table believes that the world business community should play an important role in improving economic and social conditions
- Develop CRT Principles for Business. A worldwide vision for ethical and responsible corporate behavior and serve as a foundation for action for business leaders worldwide.

- CRT principles are rooted in two basic ethical ideals: kyosei and human dignity.
  - The Japanese concept of kyosei means living and working together for the common good enabling cooperation and mutual prosperity to coexist with healthy and fair competition.
  - "Human dignity" refers to the sacredness or value of each person as an end, not simply as a mean to the fulfillment of others’ purposes or even majority prescription.

http://www.cauxroundtable.org/principles.html