Stakeholders and Corporate Social Responsibility

History

Sparked by widespread growth and increased solidarity throughout the labor movement, the concept of Corporate Social Responsibility (CSR) gained much of its prominence during the 1950’s. As a result, our society as a whole began to expect companies to accept additional moral, ethical, and social responsibilities outside of their fundamental business functions.

Starting in the 1960’s and 1970’s, the civil rights movement along with environmental watchdogs, and non-profit organizations, greatly influenced the way in which consumers started to understand and interact with businesses and corporations. As proactive consumers, we began to demand that those with whom we did business should also have a positive impact on our lives, environment, and society. Businesses were called upon to help solve global issues by reforming their policies and participating in projects aimed at making the world a cleaner, safer, and more productive place to live. This view became the foundation for what we know in today’s business world as Corporate Social Responsibility (CSR).

In order to better understand the concept of Corporate Social Responsibility, you must first understand the role that stakeholders have in an organization.

Stakeholders

One of the primary functions of a business is to serve the needs of its stakeholders, also known as stakeholder responsibility. By definition, stakeholders are the individuals or groups that have an interest in the organization and are directly or indirectly affected by its actions. Stakeholders are customers, employees, suppliers, board of directors, owners, shareholders, government agencies, unions, political groups, the media, and others. Within this broad spectrum, stakeholders can be broken down into two different groups: primary stakeholders and secondary stakeholders.
Figure 1: Organization Stakeholders

*Primary stakeholders* have a vested interest in how an organization performs and the actions that it engages in when conducting its business. Examples of primary stakeholders include customers, employees, suppliers, board of directors, owners, and shareholders. Primary stakeholders benefit from a well-run company but are also harmed by their organization’s mishaps. Their actions will have a direct affect on the organization and therefore they are at least partially responsible for both its successes and failures.

*Secondary stakeholders* can influence, both positively and negatively, the actions of the organization. They may pursue actions that make it difficult for the organization to succeed, such as implementing sanctions and regulations, raising public awareness through various forms of media, or by carrying out protests, letter writing campaigns, and lobbying efforts. In contrast, secondary stakeholders might implement many of these same strategies and tools in order to rally in support of an organization and its socially and environmentally responsible endeavors. Examples of secondary stakeholders include governments, regulatory agencies, trade unions, labor unions, political groups, social groups, and the media.
**Corporate Social Responsibility**

Corporate Social Responsibility is a self-regulation mechanism whereby an organization actively monitors society, the environment, global trends, ethical principles, and legal standards for compliance. CSR supports the organization's core mission and extends its responsibility and commitments to secondary stakeholders and other members of society. The CSR process fosters organizational actions that positively affect society as a whole.

Organizations that adopt CSR have moral, ethical, and discretionary responsibilities in addition to their economic and legal obligations. They tend to have a holistic view of responsibilities that includes not only the demands of their primary stakeholders, but also takes into account the wants, needs, and desires of secondary stakeholders.

The pyramid below provides a visual representation of the responsibility hierarchy for an organization that adopts CSR as part of their business mission.

![Corporate Social Responsibility Pyramid](image)

**Figure 2: Corporate Social Responsibility Pyramid**
As the Corporate Social Responsibility Pyramid indicates, businesses have four levels of responsibilities that contribute to their overall corporate stewardship.

The first and most basic level is referred to as **economic responsibility**. A business must be profitable in order for it to remain in business. By achieving and retaining profitability, businesses are able to give back to society by providing jobs to employees and producing the goods and services that consumers demand. The primary goal at this level of the CSR Pyramid is to maximize profits for shareholders and owners.

The next tier of the CSR Pyramid focuses on **legal responsibility**. Businesses are required to be profitable within the defined legal structure. Government agencies and regulators establish laws and regulations for businesses to follow. Global stakeholders require businesses to meet established legal responsibilities set forth at the country, state, and city levels.

The **ethical responsibility** level of our trusted pyramid dips into ancillary responsibilities whereby a business not only follows the law, but will act on their own accord to do what is ethically and morally right. Business decision makers must use fairness, equality, and respect in order to achieve organizational goals and objectives. Global stakeholders often expect a company to be morally and ethically responsible.

Lastly, at the highest level of the CSR Pyramid, a business can contribute to society through philanthropic donations and activities; these are commonly referred to as an organization’s **discretionary responsibility**. Discretionary responsibility is completely voluntary and is not financially, legally, or ethically required. The goal of businesses at this level of the CSR Pyramid is to improve the welfare of the communities and societies in which they conduct business. For example, a business that participates in a winter coat drive or hosts a canned food drive for a local food bank is considered discretionarily responsible. Being considered a good corporate citizen is the ultimate outcome that many businesses and multi-national organizations seek to achieve.

CSR is a highly complex topic. Many of the social issues and ethical dilemmas facing today's businesses did not even exist over a decade ago. Organizations are pressured to meet higher expectations by consumers, managers, stockholders, government agencies, and environmental regulators. It is no longer good enough to be profitable. A business must also meet high levels of moral, ethical, and discretionary standards. In response to these expectations, most businesses have risen to the challenge by
engaging in activities that better society. Research supports the notion that organizations that act in a socially responsible manner tend to experience higher levels of performance. While the initial intent of an organization to adopt CSR may not be for financial reasons, the financial incentives cannot be ignored.

**Summary**

- **Primary stakeholders** have a vested interest in how the organization performs and the actions it engages in to conduct its business.
- **Secondary stakeholders** indirectly affect the organization by preventing the organization from succeeding or by supporting the organization’s efforts.
- **Corporate Social Responsibility (CSR)** is a self-regulation mechanism whereby an organization actively monitors societal occurrences, the environment, global trends, ethical principles, and legal standards for compliance.
- The CSR Pyramid indicates the four levels of responsibilities for corporate stewardship excellence:
  1. **economic responsibility** is a basic business function that emphasizes profitability;
  2. **legal responsibility** means that a business is obligated to obey the law;
  3. **ethical responsibility** requires a business to not only follow the law, but also do what is ethically and morally right; and
  4. **discretionary responsibility** is the highest level of CSR, whereby a business voluntarily contributes its time, talent, or money to philanthropic causes.
- Organizations that act in a socially responsible manner tend to experience higher levels of performance.