

# CSR and the Social Contract: New Lenses for Stakeholder Analysis and Strategic Management

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# New Lenses for Analyzing Stakeholder Expectations

- For identifying
  - **Risks** due to areas of CSR exposure (CSR Threshold)
  - Windows of CSR **Opportunities**

# Thesis

- We (society) have come to see business as the primary engine (means) for the creation (end/means) of social wealth/value (though government, NGOs, and non-profits also create value)
- As a result, certain questions are necessarily raised regarding expectations arising from the Business-Society Social Contract
- We (business) need to understand those questions in order to understand and navigate changed expectations which lead to renegotiation of the terms and conditions of that Contract (macro level).
- As well as to more specifically identify the CSR environment and stakeholder expectations that impact the individual firm both as to identifying and negotiating risk and as to opportunities for competitive advantage (micro level).

# Strategic CSR

(restated thesis)

A firm that can identify stakeholder expectations and determine, evaluate and execute its strategic choices in light of those expectations is more likely to be sustainable over the medium to long term.

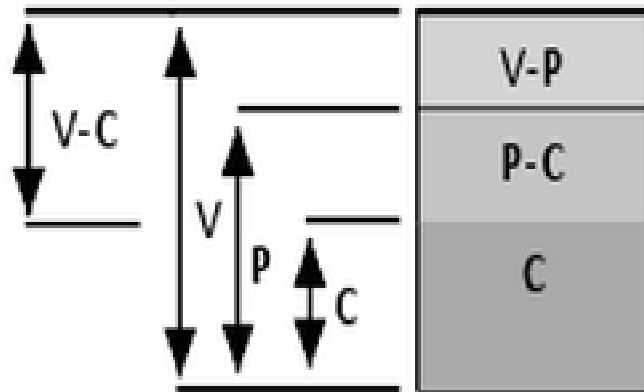
# Current Paradigm: Stakeholder Analysis

- Identifying stakes (interests, rights, claims, expectations) across the various issues
- Identifying stakeholders (those interested, affected, impacted)
- Identifying responsibility to stakeholders and determining action
  - Establishing priorities (risks/opportunities)
  - Integration throughout organization
  - Engaging stakeholders
  - Assessment /feedback/continuous improvement
  - Transparency/Communication/Reporting

# Current Paradigms: Classifying/Defining Expectations

- Carroll's Pyramid
  - Economic
  - Legal
  - Ethical
  - Philanthropic
- Context Areas/Issues (Global Compact, ISO Core Subjects, GRI Performance Indicators...)
  - Economic
  - Labor
  - Environment
  - Human rights
  - Consumers
  - Competition
  - Community/Society

# Value Creation



**C = Cost of Production**

**P = Price**

**P-C = Profit**

**V = Total Value of Product to Consumer**

**V-P = Consumer Surplus**

**V-C = New Value Created**

Does Bill Gates have an obligation  
to “give back”?

# Arguments regarding CSR

- Moral
- Rational
- Economic
- License to Operate
- Reputational/Brand
- etc., Milton to ?

# New Perspectives

- Not just Philanthropy
- Not just Risk Management
- But also Opportunity and Competitive Advantage

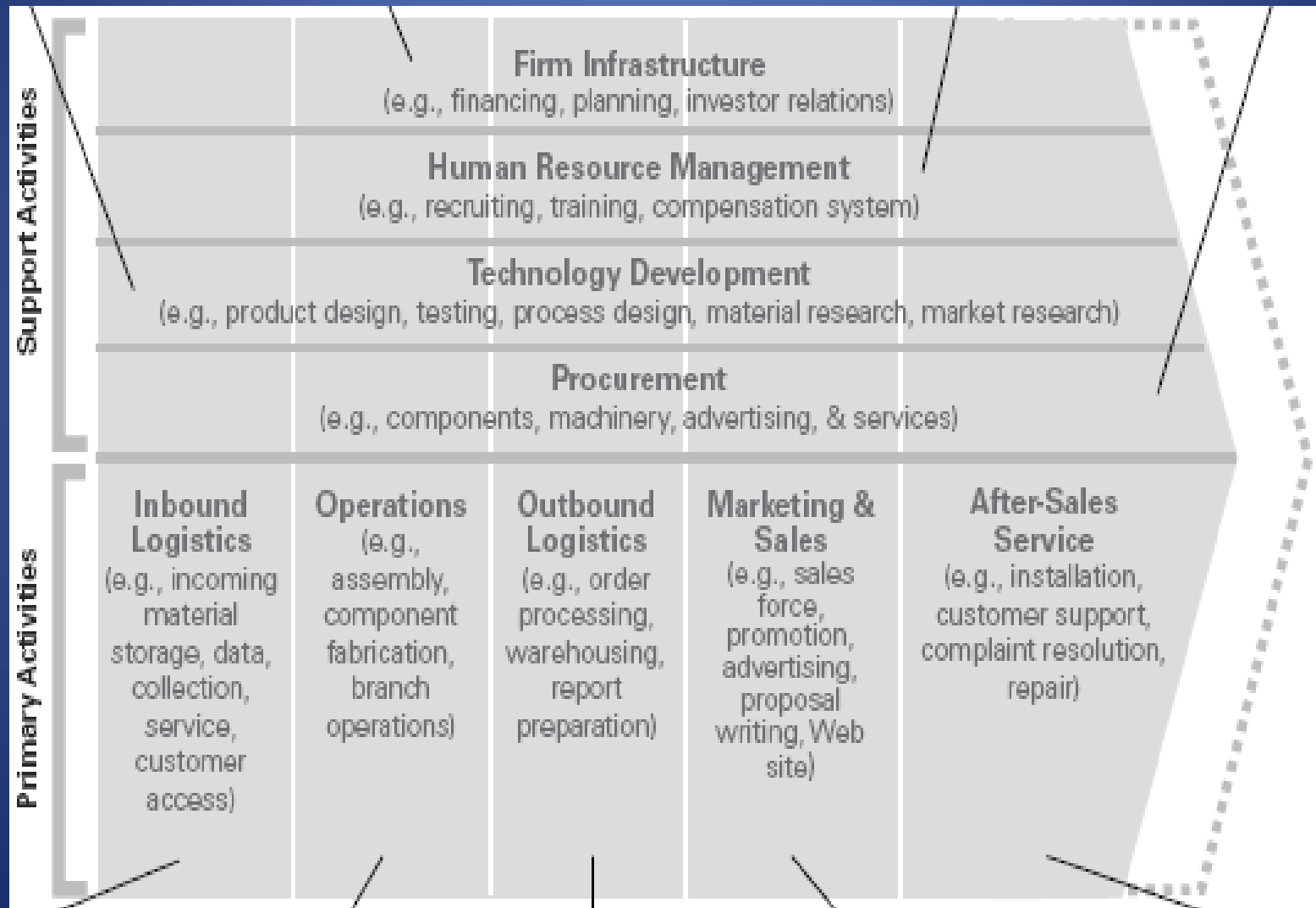
## Porter and Kramer\*

- Value Chain
- Competitive Context
- Shared Value

*\* Strategy and Society: the Link Between Competitive Advantage and Corporate Social Responsibility, HBR 2006*

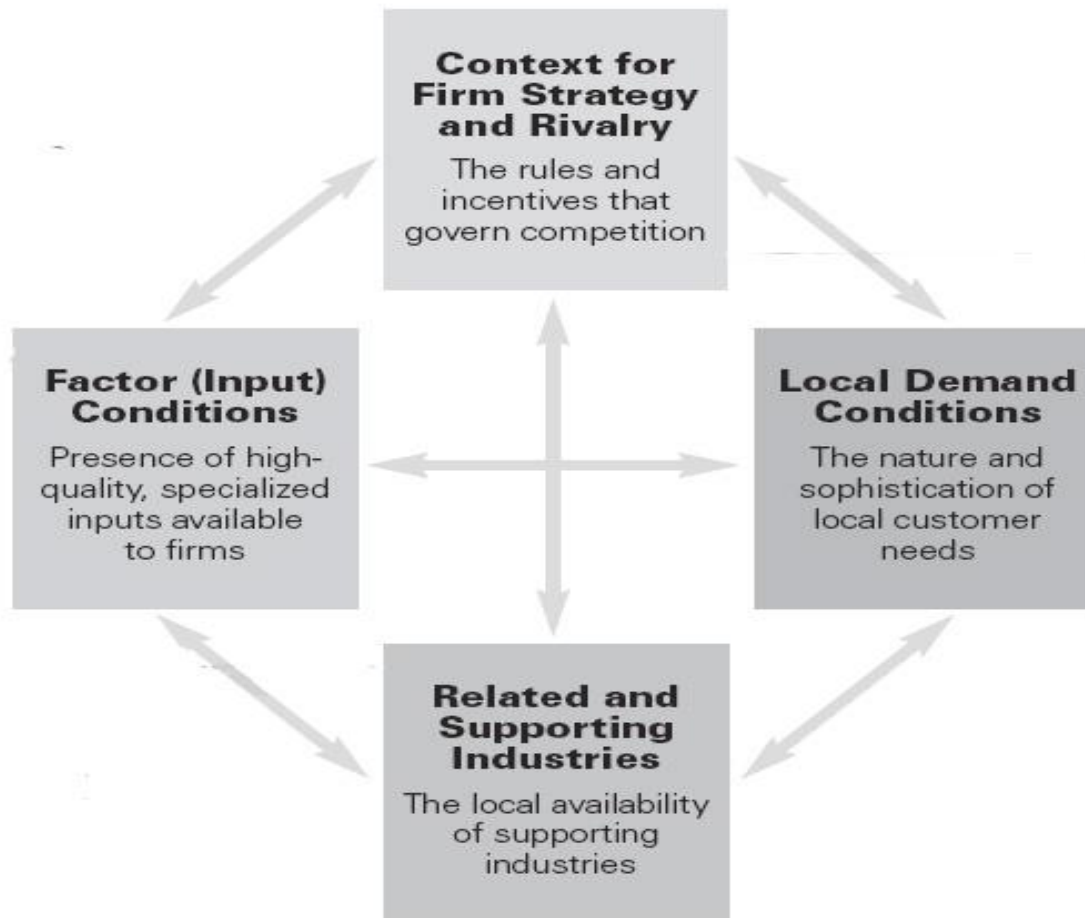
# Mapping Social Opportunities\*

(Value Chain, “inside-out” linkages)



# Social Influences on Competitiveness\*

("outside-in" linkages)





# New Lenses

CSR is about managing stakeholder expectations with a view to **sustainable** profitability (which requires sustainable value-creation).

**Expectations** as to:

1. What value to create
2. How to create that value (what inputs/costs)
3. Who pays for those costs
4. Who shares in the value created

This cuts across previously defined areas of expectations

# Why “Expectations”?

- Stakes and Stakeholders = ?
- Stakeholder Power
  - Affirmative/ Negative
  - Cooperative / Non-cooperative
- Exercise of power is based on fulfillment / non-fulfillment of expectations
- Expectations help define stakeholder-associated risks and opportunities over time.

# Why “Value”?

- Wealth is too narrow/limiting in defining expectations
- Wealth is not all or necessarily primarily what stakeholders seek/receive
- Since stakeholder expectations attach to more than wealth, so also does their exercise of power (cooperatively or non-cooperatively)
- CSR is about
  - not profit maximization
  - not wealth maximization
  - but value maximization
- Then the firm and its stakeholders, or at least society, share the same goal and interdependencies

# Overarching Question

In what forum (by what mediating mechanisms) are the answers determined?

- Marketplace (invisible hand)
- Public Policy (government)
  - As established and implemented
  - Process and Participants will vary by country
  - Might not be representative of society's (or unrepresented groups') interests, but of the interests of those in power (directly or indirectly)
- U.S economic history: *laissez faire* to economic recovery acts – responses to business or market failure

# Environmental Analysis (initial and ongoing)

- Scanning (blips on the horizon)
- Monitoring (watching for connections)
- Forecasting (looking for trends)
- Assessment (exploring potential impacts)

Expectations are constantly in flux.

# Q #1: What value to create? (given limited resources)

- Guns or butter
- 5 Star Hotels or low rent housing
- Porter's "shared value"
  - Throughout the value chain
  - Using core competencies
  - Affecting competitive context
  - While considering "full cost"

## Q #2: How to create it?

What inputs used and costs incurred?

- Renewable energy or fossil fuels
- Labor or machinery or technology
- Telecommuting rather than brick and mortar
- GMO or organic
- Toyota turning to low cost suppliers or Boeing to contract suppliers

# Q #3: Who pays what costs

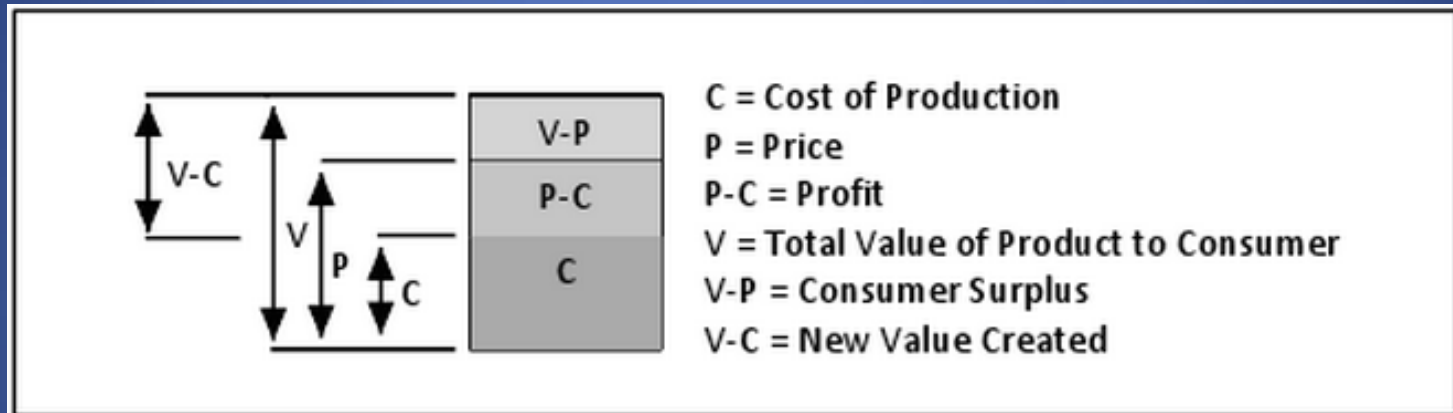
## The old issue of externalities

- Internalized
- Externalized (“You didn’t build that.”)
- “Full costs” historically shared
  - Injured workers, pollution, taxes
  - Willfully:
    - General beneficiaries (e.g. public education, transportation, court systems)
    - Temporary (e.g. incentives/subsidies)
  - History of limited liability in U.S.
    - Business forms and taxation
    - Nuclear power, oil spill disasters

## Who pays, continued

- The “full costs” must be borne by stakeholders (external) as well as by the firm (internal), and over time
- Separate issue of transparency and full disclosure (regardless of who pays)
  - full cost accounting
  - full life cycle assessment as means to understanding costs

# Q #4: Who shares in the Value Created/Added



Participant's share of value:

- Consumer share ( $V-P$ )
- Suppliers of inputs share ( $C$ )
- Firm's owners (and philanthropy for non-participants) ( $P-C$ )

Bill does not need to "give back"

## Who shares, continued

- Expectation relationship with who provides inputs or bears the costs (stakeholders, throughout the value chain)
- Reciprocally, those who expect value must bear fair proportion of costs (“green” customers)
- Who “owns” the business? (Governance Issues): (next slide)
- Taxation
- Strategic philanthropy

# Who shares, continued

- Who “owns” the business? (Governance Issues):
  - Investors or Expense? Are they all just inputs? All costs but with different compensation mechanisms?
  - Arbitrated by the board(?) – board in a mediating role among stakeholders (*A team production theory of corporate law*, Virginia L R, 1999).
  - Redefining directors/execs duty to act in the “interests of the corporation” but defining the “corporation” by its stakeholders and in terms of sustainability (“socially responsible corporations”, Benefit corporations, B-Corps)
  - Competitiveness context (Porter) the value traded for inputs, may change over time, but sustainability means it must be sufficient to ensure continued participation in the long term
  - If total costs exceed value created , must qualify as an investment and must be sustainable over time

- Q 4.1: What proportions
  - Distributions, retained earnings (short term vs. long term investors)
  - Wages (gap between local and global?; minimum vs. living); US employment at will or prevailing global model
  - Philanthropy
  - Taxes (federal, state, local); breaks for startups? Investment credits
  - Suppliers (especially global?)
- Initial non-protection of IPRs for developing countries

# Levels of Strategic Management

- Enterprise-Level
  - What is our role in society?
  - What do we stand for?
- Corporate-Level
  - What business are we in?
- Business-Level
  - How are we going to compete?
- Functional-Level
  - How do we integrate business functions?

# Conclusions

- Stakeholders are those with expectations related to the 4 Questions and the firm's strategy.
- Firms must be aware of those expectations that are sufficiently strong as to attract the use of power/cooperation/opposition (either upon satisfaction or failure of expectations) relative to the firm's strategy
- Distribution of value created in a way to make maximum value creation sustainable – each participant must share in costs and value created sustainably

# Conclusion

A firm that

- understands and strategically manages
- the expectations of stakeholders
- relative to each of the 4 Value Question areas
- will be better able to secure the continued cooperation of stakeholders
- and therefore be more **sustainable** in its value proposition.