Creating Business Value through Corporate Social Responsibility: Insight from Traditional Management Theory

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ABSTRACT

The reason why businesses devote a lot of attention to the concept and practice of value creation is that it is at the core of its survival and later prosperity. To this end from the very first day that the company starts its operations or service, it begins to take action and strategy that will allow it to measure the ever changing desires and expectation of its different stakeholders and then position itself strategically to reach each of them in the exact manner that it is expected. The existing literature is replete with conflicting studies on the ranking of stakeholders in an organization. While some studies perceive shareholders as preeminent stakeholders, others consider the role of customers, employees and management team members as the most important. Yet emerging theories and concepts of stakeholder theory suggest a complementary role hence the nullification of a ranked stakeholder ladder. This paper reviews the underlining theories and arguments in this highly contested area of business development.

Keywords: Stakeholder, Stockholder, Social Responsibility, Complementary, Roles

INTRODUCTION

Value’ can be defined as the perception of benefits received against price paid by the customer, hence the term, “Value for money”. Value must be greater than the cost of resources for the business to be profitable. The task of any business is to deliver customer value at a profit Johnson et al, 2014). According to Barnes (2015) the traditional view was that a firm makes something and then sells it. The economy is marked by shortages and customers are not fussy about quality, features or style. However, this view does not hold in more competitive economies where people face abundant choices (Anderson et al, 2015). The smart competitor must design and deliver offerings for well-defined target markets. This places market at the beginning of the planning process and companies now have to develop a proper ‘value-creation & value- delivery’ sequence in order to remain competitive. In essence, the reason why businesses devote a lot of attention to the concept and practice of value creation is that it is at the core of its survival and later prosperity. To this end from the very first day that the company starts its operations or service, it begins to take action and strategy that will allow it to measure the ever changing desires and expectation of its different stakeholders and then position itself strategically to reach each of them in the exact manner that it is expected (Muldrew et al, 2015). There are many stakeholders in an organisation with different levels of interest. Some theories suggest that the most important stakeholders are the shareholders that provide the capital and benefits from dividend income. Others suggest that the management personnel that serve as the administrators of investment and coordinate the actual day to day activities of the investment process are most important (Mbía, 2015). The other stakeholders are the employees who are used to create value and other critical business partners such as suppliers and financiers (provides the necessary finance and raw
materials that are processed to create value). Apart from the above mentioned stakeholders, the significance of the central government that represents the general public and provides the regulatory and operational environment for effective management of businesses cannot be overemphasized. Other interested parties that have valuable claims in the operations of businesses are the competitors that provide the necessary incentives and motivation for businesses to strive for higher values at all times and even detractors (Boas, Franz, 2015). The new marketing concept or marketing philosophy perceives the customer as the most important stakeholder for the organization. For this reason their interest must be placed above all other stakeholders in an organization Wiredu, 2015). The proponents of this theory contends that all business organizations that sees the consumer as sovereign and ensure their satisfaction are more likely to get better profits and market share. Because this is what every organization is looking for it is proper to give preeminent to the demands of the consumer (Fombrun, 2000).

Becker (2016) however thinks that as providers of resources and investment funds, shareholders are the "first among equals" when it comes to those whose values should be prioritized. Both arguments have not been found to be convincing in the eyes of researchers like Cavett-Goodwin (2016) and insist that no group of stakeholder of an organization occupies a preeminent role than others. Instead each stakeholder represents interests which the company is in need of and must endeavour to meet each of them at the point of their need. Cavett-Goodwin (2016) on the other hand argues that every business must seek interest in business approaches that improve the balance between life and work and see that in any event, the organization's activities must be to satisfy every member of society, in which it operates. This must reflect in the type and the quality of products that is brought to the market and the price which is charged for it. Again value must also show in the process, which is used, and how friendly it is to the environment, the frequency and honesty with which the business declares its income and pay the appropriate taxes to government as well as the level of honesty in offering proper and fair conditions for employment of human resources that it uses to create these values. For them, such organizations supporting a community to meet some of their everyday social problems, such as support for education and health, or in any other sector is just one of many social obligations, which the organization is obliged to its stakeholders that it is set up to serve. All excellent organizations aspire as much as possible to create value not only for one particular group but rather ensure that all of its activities are designed to ensure that good value is created and enjoyed by all. This study relates directly to the latter group of researchers who believe that for each organization creating value is about striving to improve the confidence of stakeholders, improve the living standards of the community, enhancing the economic contribution of the country, facilitating the self sustaining mission of communities, strengthening conservation and biodiversity improvements (Carroll, 2016). Existing literature fall short of carrying out this comprehensive overview as they have limited themselves to seeking what the corporate social responsibilities are without analyzing the differences between the different stakeholders and then analyzing the different ways by which value can be created for them to enable a comparison to be made of the differences in value creation. This review explores the various stakeholder theories and their respective arguments. It examines the major stakeholders of an organisation and what they expect from a company. The review further explores the main challenges that corporate organizations encounter in serve all their stakeholders. The remainder of the section is examined from the perspective of the stockholder theory before examining the stakeholder theory. Finally the social contract theory if examined.

THEORETICAL FRAMEWORK FOR SOCIAL RESPONSIBILITY

There are a number of definitions of social responsibility but in this study the definition of social responsibility by Solomon (2014) and also of Drucker (2016) is what is used. The former explains ethical responsibility and social responsibility to be the same by emphasizing that it is a responsibility that is not the legal mandate or the responsibility of a business but rather what makes the organisation ethically valuable i.e. the ethical obligation of business or an individual. Drucker (2015) has criticized this because in his view it is very loose, generic use of phrase that can obscure or prejudice exactly what a business or an individual’s ethical obligations truly are. He rather considers social responsibility as “those ethical obligations, if any, that businesses or business persons have to expend business resources in ways that do not promote the specific purposes for which the business is organized” (Drucker, 2015).

What can be made of this definition is that every business organisation has set of responsibilities which they are legally mandated but also there are
other activities and responsibilities which it has no legal consequences for it if it refuses to do it but by virtue of the fact that the company operates within a living society and with resources from the society, it becomes the responsibility. It is these non-legal but ethical and face-saving (Crowther, 2000) or goodwill gaining activities which Drucker (2015) highlights as constituting the social responsibility of an entity. Korschun and Swain (2011) explains that sometimes it is not easy to explain the notion of separating legal and ethical responsibilities and argues that it is both ethical and it is legal for a company to provide quality goods and services that will meet the aspirations of consumers but there are also purely ethical obligations like finding out the reaction of the consumer to the product after he or she has used it. This attempt at collecting feedback is only ethical and not legal. Purely ethical responsibilities can also be found when a company voluntarily conveys heavy duty goods which it is selling in order to ease the pressure on the customer as an after sales service. The above notwithstanding the essential point is that both ethical and legal responsibilities are intended to achieve the same objective of safeguarding and supporting society and the people within to aspire and achieve the best that they can be.

Three main theories have been used to defines and examine the issue of social responsibility. These are the stockholder, stakeholder, and social contract theories (Huizing, 2016). Within these theories stand the distinct yet compatible accounts of the ethical responsibilities which business confer on the organisation as a whole and the people who work within it. These theories attempt to explain in a conceptual way yet clearly, those set of regulation which goes beyond the legal requirements that are expected of enterprises in order to achieve a general objective of fairness in business. The stockholder theory is the oldest but it is the least preferred because of its identity as a disreputable holdover of the bad old days of rampant capitalism (Drucker, 2016) but by and large its widespread application in evaluating most organisations is without doubt. The next is the stakeholder theory (Owen and Maunder, 2016) which has come from the latter theory to meet the explanatory concerns of those who do not like the position of the stockholders theory. Finally the next is the theory of social contract theory which is presented with considerable approbation and currently challenges the stakeholder theory for preeminence (Bhattacharya et al, 2016).

**STOCKHOLDER THEORY**

The logic behind this theory is that every business enterprise is an arrangement whereby people who have different economic interest (shareholders) contributes a pool of funds so that it becomes a capital that is given to another group of people that have investment abilities and knowhow (managers). These two groups thus meet and align their objectives paving the way for the stockholders to advance fund to these managers under certain conditions. The managers are also expected to be rewarded while in the process of achieving these objectives set for them and thereafter any other way which the stockholders may deem fit as deserving of the managers (Duska, 2016). The stockholder theory’s major point is that the relationship between the stockholder and the investment managers is an agency relationship where by one person is only acting on behalf of the other and purely on the instruction of such a person in order to protect his interest. As an agent he or she is subject to dismissal at any time when the individual interest is seen to be at conflict with that of the principal stockholder (Orlitzky et al, 2015).

The implication of this theory in understanding the issue of social responsibility is that managers even though may have discretionary powers in deciding which of the venture is worth investing in, it is not within their boundaries to use the resources of the stockholders to engage in activities which does not directly affect the value creation for the investor (Cory, 2016). Under no circumstance is there a mandate conferred on the manager to expend the stockholder’s resources on social development areas without the express or the implied authority of the stakeholders irrespective of any social benefits that may be charged at the same time. The theory assert that it is a personal decision hence personal funds are those which can be used to support charitable or socially beneficial when “ex cathedra” or as officers of the business, no manager is permitted to divert business resources away from the purposes which the stockholders have authorized.

The words of Friedman (2016) who is the father of this theory is that “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud” (Friedman 2016).

This unwavering stands of the theory which is translated to mean that a manager is bound by the agency arrangement not to do anything at all to increase profitability but rather do things which are “intra-vires’ (Friedman, 2016) is what makes many
people see it as extremely capitalist in nature. Quinn and Jones (2015) argues that such a view of social responsibility deprives the managers of moral freewill or blank cheque with which they can surmount genuine ethical constraints to pursue profits even though it does not condone illegality and deceptive means of achieving objectives. Far from saying that the stakeholder theory does not have regard for moral and ethics, it is the conviction of Pettinger (2015) that it is a mechanism that supports the fact that ethical value of the society is embodied in its laws hence honest dealings are the basis for which any social value or ethical judgment can be made. In other world societies legal standard have been built on moral which are adequate to cover the ethical obligations which are expected of the business as well.

STAKEHOLDER THEORY

The stakeholder theory comes from the affective management perspective of empirical theory school of thought. The theme of the theory is that an organization’s profitability or any other financial success comes from a conscious effort at giving proper consideration to the interest of all the stakeholders. As an effective management philosophy all that Donaldson (2016) asserts is that there are so many stakeholders in every organisation that are consistently competing for attention. Each of the stakeholder weld some power hence some influence which the organisation may have need of either today or in the unforeseeable future. To that extent it is in the interest of the organisation to ensure that whichever stakeholder that is identified is satisfied as far as it is within the powers of the organisation (O'Neill, 2016)

Solomon (2014) provides a definition of stakeholder that is worthy of consideration by claiming that “any group or individual that has the capacity to affect or are generally affected by the activities of the business i.e. those individuals or groups or other businesses and agencies that are vital to the survival and success of the corporation such as the owners, customers, employees, suppliers, management, and local community. Freeman and Evan (2016) draws a relationship between this expanded stakeholder theory with the ethics principle of the ancient philosopher Emmanuel Kant. According to Kant every person has the right to be given the respect for who he is and not because he is a means to achieving some other thing. Every stakeholder no matter the contribution which he puts into an organisation whether as a means to achieving the end of as amend in itself, whether as a provider of capital or as an employee, is valuable in his or her own right (Corey, 2016).

Kant further argues that when a business acknowledges this fact it means that it recognizes that each person or party is an autonomous moral agent with desires and freewill to act upon those desires. The principle of respect for persons requires respect for others' autonomy (Cory, 2016). Comparatively theory is specifically coming from the school of thought that emphasizes the value of each party whether irrespective of their role and the value which society or the business places on their contribution to the success and the sustenance of the organisation (Singer, 2000). The reason for the popularity of the stakeholder theory comes from this advocacy for the respect of the right of each party in an organisation and a conscious effort to seek through welfare. Businesses have a moral mandate to unclothe itself and disengage it activities from those that seek to create disparity in value for stakeholder and rather consider all as equally valuable. The challenge here is that this is not practicable because it defeats the value of social stratification. It is never possible to assign the same value for the contribution which people make in an organisation.

SOCIAL CONTRACT THEORY

The most liberal and easiest of the theories which have been used is the Social Contract Theory. The theory suggest that the society in general acts on its own behalf an on behalf other members have a social contract with the business organisation. It is the society that gives permission for the existence of the company, the right to use it resources, land, labour and capital in return for extended courtesies to the society and it members. Pennington et al (2016) argues that when granting the right for businesses to operate the society also society gives a legally recognizable authority to business as agents that are worthy of cohabiting with to support it is meeting some of its challenges for that matter they are mandated to "enhance the welfare of society... through the exploitation of special advantages and minimizing disadvantages but all of these must be done within the boundaries of the general canons of justice.

In all the three theory have different ways by which they affirm the responsibility that a firm has to the society. The difference comes in term of the definition of stakeholders; the stakeholder theory is the most appropriate framework for a study that considers the general welfare of all stakeholder and
the values which businesses can do for them (Pettinger, 2015).

**STAKEHOLDERS AND THEIR EXPECTATIONS OF VALUE**

Robertson (2016) classifies the stakeholders of an entity into two main groups either as external stakeholder some of which include the governments and the general public and internal stakeholders that include customers, employees, investors, managers, suppliers and other partners. Each of these have delineated although sometimes overlapping sets of interest which they expect an organisation to meet. As indicated above, it is the ability to meet all of these that constitutes value creation. Solomon (2015) has examined internal interested seekers like equity shareholders and explains that they are those that bring in the money that is needed for investments. They are even in most instances the initiators of the business idea and acts as the promoters of the organisation when they are going through the rigorous process of registration to bring it into existence. This group also includes potential shareholder and holders o convertible securities, warrants and options. For investors value is about profitability, viability and opportunity for growth.

As recipients of dividend and capital gains, it is the expectation of investors that the business will grow in value and attract more value in the eyes of the general public and increase the value of their shares as well as receive adequate dividends from the profits of the operations of the organisation. Although economic models by Miller and Modigliani (1961) have sought to play down on the effect which non-payment of dividends can have on the investor’s commitment to an organisation others such as Lintner (1956) and Gordon (1959) have also asserted in strong terms the relevance of dividend to enforcing inverts decision to continue of not the further relationship with the organisations. Considering the fact that withdrawal of capital is a perquisite for business collapse, it is important to serve them well (Paluszek, 2016).

When it comes to contribution of finance to an organisation two more groups are of essence to an organisation. These are the suppliers and the financiers or creditors. For these which include major suppliers, bankers, and debenture holders and other loan stock interested parties, it is their aspiration that the business will be true to its obligation by redeeming its debt obligations which are due them and the accrued interest within the reasonably agreed time. These are basically financial intermediaries that also have demand put on them by those from whom they have taken capital. To that extent the ability to shorten the liquidity cycle plays a stronger role in maintaining an effective relationship and ability to even support the organisation during times of difficulty (Tullberg, 2015). Dealing with financiers and supplier is so critical to the survival of an organisation that if it is not managed well it can spell doom for it future existence (Tullberg, 2015). Further studies have been done by Thilmany (2016) on the important role that external financiers play by asserting that any organisation that is able to pay all the best dividend yet is unable to meet its recurring debts is in effect digging its own grave because it will not gain the trusted by any other financial institution when they have some challenges.

The next group of stakeholders who have great expectation of an organisation are the customers. It has already been indicated that the argument against and in favour of who has the major interest i.e. the shareholder or the customer has a long history in academic research. The importance of the customer here is that he or she is the end point of marketing activities. All the services and the products which are been produced will only be bought by the consumer. To this end they are the first line of gaining income and then later profit (Wood, 2015). Customers expect that the business will be considerate at least when it comes to producing goods and services that are free of error and of good quality. The products and services must meet the required international standards and must be provided a timely. Another important issue which affect the customers is the pricing decision which takes place. Customers desire that they receive their money’s worth or that they pay economic rates for the products which they buy (Friedman, 2000)

There are other marketing mix elements such as placing which is the means by which the products get to the customer, the extent to which cultural factors are adopted to suit the specific need of the customers. All of these are essential to the customer and must be designed to ensure that his or her interest is considered in order to reduce the transaction cost of accessing the product. Another reason why the role of customer in affecting a business organisation’s fortunes is very important is also because of the changing desires of the consumer. According to human behaviour experts like Bandura (2015), consumers keep changing their behaviour or the things which influences them. This means that they
are always shifting from one product to a higher one. For this reason it is very important to ensure that they are always satisfied since the nature of business competition makes them the sole or at worst the major determinants of business success. This is indeed a very difficult task as the standards which one consumer may desire is not the same as what another may wish hence ability to place value on exactly what consumers are looking for is one that can only be gained through well calculated and carefully analysed marketing research process (Freeman, 2016). At any instance where the consumer’s needs are ignored and the value which he or she is seeking is sacrificed for any other gains, the company has a stronger inclination to fail than succeed.

Two other important stakeholders are relevant to the survival or an existence of the business organisation is managers and employees. William et al (2014) explains that often the managers are ignored since they are the same people who take the decisions concerning the day to day management of the organisation. Sometimes also it is erroneously held that they receive much already and for that matter with is only when their performance is bringing in profits that they should be supported or satisfied. The contrary is the case. In the view of Habisch (2016), managers must be guaranteed of continuous employment and the payment of competitive benefits at the end of their tenure of office.Arguing from the perspective of separate legal entity, Saether et al (2016) argues that managers are not bonded to an organisation as servants but are expected to be paid the required remuneration that they desire once they have fulfilled their part of the obligation. This he explains is the reason why the company can sue it managers and its managers can also sue the company in its own name. In the same way the employees also desire that their interest in term of secured financial and physical working conditions is guaranteed.

The two main external interest holder of an organisation are the government and the general public. Government have both ethical and legal obligations. Apart from the legal mandate to honestly declare its income and pay the appropriate taxes on its income and to operate with the best practises in the industry that will safeguard the places of work and the people with whom they perform their task, it is also ethical valuable for government to see to it that the organisation supports in community development and the creation of employment to enable it to better manage the society which the responsibility of both the public and private sectors (Kytle, 2016). It is the expectation of government that while a business has the option of investing wherever it wishes, in instances where a lot of income is retained in the economy it helps to speed up the rapid growth of the domestic economy. For this reason any organisations that do that usually have healthy relationships with the government. The above argument and more are the same which the social contract theory presents as cases in favour of ethical responsibility.

CONCLUSION

This review has examined the theoretical framework which underpins the corporate social responsibility. While the marketing concept has reinforced the preeminent role that the customer has in terms of the value which must be created, the stakeholder theory has indicated the overriding importance of meeting the needs of those that invest in an organisation. The social contract theory is different in all aspects as it only views the moral responsibility to be a result of an inherent social contract which a business enters into with society at the time its establishment to enhance the welfare of society through the exploitation of special advantages and minimizing disadvantages. The analysis of the stakeholder theory is what this research is directly related to.

It recognises the fact that every person that is connected to an organisation is very important and for that matter value should be created for the person. By categorizing owners, customers, employees, suppliers, management, and local community as people form who equal value must be created, the theory supports the position that any group or individual who has the capacity to affect or are generally affected by the activities of the business is significantly strategic to the success and long term prosperity of the organisation and for that matter value should be created. The exact values which must be created have also been explained for each of these categories of people as above.

REFERENCES


