Stakeholder Orientation and Corporate Social Responsibility as a Precondition for Sustainability

KLAUS J. ZINK

University of Kaiserslautern, Kaiserslautern, Germany

ABSTRACT

The demand for sustaining excellence is related to a lot of issues. In the past, many activities of companies have primarily been led by programmes. As a result, at the very beginning it has been obvious that a programme has a lifespan – and then the next programme will follow. This is not a good precondition for sustainable success. Therefore, different approaches had to be found to gain sustainability based on a continuous improvement process. But again, there are limits if not all relevant target groups are in the focus. As a consequence, this paper deals with the relevance of a stakeholder orientation in a frame of corporate social responsibility as a precondition for sustainability.

Relevance of the Topic

The issue of stakeholder orientation is (again) gaining importance based on the ongoing discussion about the social dimension of globalization – led among others by the International Labour Organization (see for example ILO, 1977).

The word ‘stakeholder’ first appeared in the management literature in an international memorandum at the Stanford Research Institute (Freeman, 1984). A broader discussion was initiated by Freeman (1984) in his book Strategic Management – a Stakeholder Approach. The potential of stakeholders may become obvious through the definition of Freeman, who defined stakeholders as ‘those groups without whose support the organization would cease to exist’ (Freeman, 1984: 13).

In the meantime, this stakeholder concept got more or less lost, while Alfred Rappaport’s book on ‘Shareholder Value’ gained an increasing interest in the United States at first, but then also in other western countries (Rappaport, 1986). As the title describes, Rappaport developed a new way of evaluating a company’s success in...
placing a long-term success for shareholders at the first place. In practice, analysts misused Rappaport’s concept in applying it for short-term evaluation.

The consequences of a short-term orientation combined with stock options for management can be shown by US finance scandals of the last few years, such as:

- Enron: losses and debts hidden in subsidiaries to conceal results.
- World Com: US$3.9 billion wrongly accounted.
- Global Crossing: up to 20% of sales volume from fictitious transactions.
- Adelphia Communication: half a million subscribers invented.
- Merrill Lynch: recommendation to purchase problematic securities.
- And so on.

This misunderstanding and misuse of the shareholder value concept started a worldwide discussion about corporate governance. In Germany, for example, a so-called ‘Corporate Governance Codex’ has been installed (see Ihrig & Wagner, 2002: 298 ff).

These developments, but also other causes, led to an international research project supported by the A. P. Sloan Foundation asking the question of whether there is a need for redefining the corporation. Here again stakeholders are playing a dominant role: ‘The stakeholders in a corporation are the individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and therefore its potential beneficiaries and/or risk bearers’ (Post et al., 2002: 19f.). The redefinition of the corporation reads as follows: ‘The corporation is an organization engaged in mobilizing resources for productive uses in order to create wealth and other benefits (and not intentionally destroy wealth, increase risk, or cause harm) for its multiple constituents, or stakeholders’ (Post et al.: 17). In this context, organizational wealth is understood as ‘the summary measure of the capacity of an organization to create benefits for any and all of its stakeholders over the long term’ (Post et al.: 45).

Especially in Europe, the concept of Corporate Social Responsibility (CSR) as part of sustainability is of growing interest. The European Commission launched a Green Paper to promote a series of activities in this field (see European Commission 2001, 2002). The topic of CSR has also been included in the ‘Portfolio’ of the European Foundation for Quality Management (see EFQM, 2004).

**Stakeholder Orientation versus Shareholder Orientation?**

Having described the understanding of stakeholders, it is now necessary to define the shareholder value concept a little more precisely. As mentioned above, Rappaport promotes a new measure of success, which is defined as the difference between corporate value and debt.

\[
\text{Shareholder Value} = \text{Corporate Value} - \text{Debt}
\]

By understanding corporate value as the present value of cash flow from operations during the forecast period + residual value + marketable securities (and other investments that can be converted to cash and are not essential for operating the business), cash flow in this sense is the difference between operating cash inflows and outflows. The residual
value is the present value of an organization for the period after the forecast period (Rappaport, 1998: 33).

Rappaport explains in his book, why the discounted cash flow method is better than traditional figures like ‘Return on Investment’ or ‘Return on Equities’. There are arguments one can follow, and therefore it is not the shareholder value concept as such that is the problem, but the misunderstanding of the people using it.

Allan A. Kennedy (2000) showed the consequences of such misunderstandings in his book *The End of Shareholder Value – Corporations at the Crossroads*.

The most frequently used instruments to increase the shareholder value are nearly always the same:

- Downsizing: reduction of personnel costs.
- Reduction of R + D expenditures.
- Reduction of procurement costs (‘pressure’ on suppliers).
- Reducing customer choice (e.g. brand variety).
- Investing in stock buyback programmes.
- Stock options for the management.

Taking downsizing as one example, one can see, that if a company is announcing the layoff of thousands of employees, the analysts realize a cost cutting strategy – and the stock prices increase. This mechanism shows that there is obviously another understanding of long-term success than that stated by Rappaport.

An example of job reductions during the last years is given in Table 1.

**Table 1. Effects of a misunderstood shareholder value philosophy (Source: Manager Magazine, 7 November 2001)**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Employees annual report 2000</th>
<th>Job reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcatel</td>
<td>130.000</td>
<td>33.000</td>
</tr>
<tr>
<td>American Airlines</td>
<td>117.000</td>
<td>20.000</td>
</tr>
<tr>
<td>Boeing (Commercial)</td>
<td>93.000</td>
<td>30.000</td>
</tr>
<tr>
<td>Commerzbank</td>
<td>39.000</td>
<td>5.100</td>
</tr>
<tr>
<td>Daimler-Chrysler</td>
<td>417.000</td>
<td>40.000</td>
</tr>
<tr>
<td>Delta Airlines</td>
<td>81.000</td>
<td>13.000</td>
</tr>
<tr>
<td>Deutsche Bank</td>
<td>98.000</td>
<td>7.100</td>
</tr>
<tr>
<td>Dresdner Bank</td>
<td>52.000</td>
<td>7.800</td>
</tr>
<tr>
<td>Ford</td>
<td>346.000</td>
<td>5.000</td>
</tr>
<tr>
<td>Fujitsu</td>
<td>187.000</td>
<td>21.000</td>
</tr>
<tr>
<td>Hewlett-Packard</td>
<td>86.000</td>
<td>6.000</td>
</tr>
<tr>
<td>Hypovereinsbank</td>
<td>73.000</td>
<td>9.100</td>
</tr>
<tr>
<td>Infineon</td>
<td>35.000</td>
<td>5.000</td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>35.000</td>
<td>4.000</td>
</tr>
<tr>
<td>Motorola</td>
<td>147.000</td>
<td>39.000</td>
</tr>
<tr>
<td>Opel</td>
<td>43.000</td>
<td>8.900</td>
</tr>
<tr>
<td>Siemens</td>
<td>418.000</td>
<td>17.000</td>
</tr>
<tr>
<td>Toshiba</td>
<td>188.000</td>
<td>19.000</td>
</tr>
<tr>
<td>Unilever</td>
<td>295.000</td>
<td>25.000</td>
</tr>
<tr>
<td>United Airlines</td>
<td>102.000</td>
<td>20.000</td>
</tr>
</tbody>
</table>
Other examples focusing on the reduced spending for R&D are also shown in Kennedy’s book (Kennedy, 2000: 55).

As this misunderstanding leads to the impression, that companies are only interested in increasing shareholder value (in a short-term perspective), the other stakeholders react:

- The best employees look for a new employer.
- Informed customers turn away.
- Suppliers strike back.
- Governments start to redefine the ‘law’s of the game’ by changing conditions for investment incentive grants, environmental protection laws or laws for corporate governance.

In this context the idea of a stakeholder orientation has been ‘revitalized’. Worldwide new assessment concepts for companies appeared.

In Europe – but also in Dubai – the Excellence Model of the European Foundation for Quality Management is the leading model (see Figure 1).

As key performance results include the shareholders, the European Model includes four groups of stakeholders: customers, shareholders, employees and society as a whole.

The same is true for the Performance Excellence Model of the Malcolm Baldrige National Quality Award (Figure 2).

The National Institute for Standards and Technology (NIST) could show, for a series of years, that Malcolm Baldrige Award winners outperformed Standard & Poor’s 500 companies (Baldrige National Quality Program, 2004). This offers the conclusion that stakeholder value and shareholder value might not be a contradiction. A stakeholder orientation can improve the shareholder value, as Pfeffer showed for the stakeholder group of employees (Pfeffer, 1998).

Looking at the developments in accounting during the last years, one can also state an orientation towards a stakeholder approach. Kaplan & Norton (1996) ‘invented’ the so called ‘Balanced Scorecard’, which is trying to balance the different perspectives of stakeholders in deploying a companies strategy (Figure 3).

![Figure 1. EFQM excellence model (EFQM, 2003)](image-url)
Sustainability and Corporate Social Responsibility

Looking at a broader scope, stakeholder orientation has to be seen as part of sustainability, because in the meantime it has become more obvious that sustainable success depends not only on the shareholder, but also on all (other) relevant stakeholders of an organization.

The concept of ‘sustainability’ was developed at the end of the 18th century in forestry, where it became obvious, that – if you want to keep resources for future generations – you should not cut down more trees than are growing back (Glück, 2001: 9). In other words, if

![Figure 2](http://example.com/baldrige_criteria.png)

**Figure 2.** The Baldrige criteria for performance excellence (Baldrige National Quality Program 2003)

Sustainability and Corporate Social Responsibility

Looking at a broader scope, stakeholder orientation has to be seen as part of sustainability, because in the meantime it has become more obvious that sustainable success depends not only on the shareholder, but also on all (other) relevant stakeholders of an organization.

The concept of ‘sustainability’ was developed at the end of the 18th century in forestry, where it became obvious, that – if you want to keep resources for future generations – you should not cut down more trees than are growing back (Glück, 2001: 9). In other words, if

![Figure 3](http://example.com/balanced_scorecard.png)

**Figure 3.** Elements of the original balanced scorecard (based on Kaplan & Norton, 1996: 9)
you want to sustain your ‘capital’, you should live on interest – and not on capital. This basic concept has been generalized and numerous suggestions for interpretation were added: basically it is people’s dependence on the environment (in a broad understanding) and the reaction to global changes in the environment – in economic, social and ecological respect – through its present behaviour. Therefore, sustainable development has to ensure the life and ‘production’ basics in terms of a global and lasting preservation of the environment as well as the development and stabilization of economic and social behaviour (Schulz et al., 2001: 374). Here again a long-term perspective is sought.

This concept of sustainability has been discussed for years within the international community. The Rio de Janeiro Conference on Environment and Development in 1992 has been an important step to promote these ideas. Sustainability has been understood as resting on three pillars: economic growth, ecological balance and social responsibility (United States Department of Economic and Social Affairs (DESA), 1992).

Since the beginning of this century the European Union has been promoting a policy on Corporate Social Responsibility (CSR) (European Commission, 2001, 2002) as part of its basic message of the Sustainable Development Strategy for Europe. Therefore, in long-term economic growth, social cohesion and environmental protection go hand in hand (European Commission, 2001). The definition for CSR used reflects a concept whereby companies integrate social and environmental concerns in their business operations and their interactions with their stakeholders on a voluntary basis (European Commission, 2002: 7). To act socially responsible means, in most cases, not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the

![Figure 4](performance_dow_jones_sustainability_index.png)

*Figure 4.* Performance of the Dow Jones Sustainability Index. (Source: Dow Jones Sustainability Indexes, 2004a, *Monthly Update*, June 2004)
environment and the relations with stakeholders. Some of the companies well known for activities based on social responsibility and sustainability have also improved their competitiveness and their financial results. Responsibly acting in relationship to all relevant stakeholders may be described – in a broad summary – as the ethical behaviour of a company towards society.

The EU concept of Corporate Social Responsibility consists of an internal and an external dimension (European Commission, 2001: 9f).

The internal dimension includes:

- human resources management,
- health and safety at work,
- adaptation to change,
- management of environmental impacts and natural resources.

The external dimension consists of:

- local communities,
- business partner, supplier and consumers,
- human rights,
- global environmental concerns.

As important elements of a social responsible company, the following points have been discussed (European Commission, 2001: 17f):

- social responsibility integrated management,
- social responsibility – reporting and auditing,
- quality in work,
- social- and eco-labels,
- socially responsible investment.

This first publication delivered the basis for a consultation process. Based on more than 250 responses, the Commission developed and published strategies and an action plan for CSR in 2002 (European Commission, 2002). As already discussed during the United Nations Conference on Environment and Development in Rio de Janeiro in 1992, sustainable development has to consider economic, ecological and social aspects. Within the EU CSR concept, consumer interests are also a specific issue. In more detail, the following action points have been formulated – based on the so far realized deficits (European Commission, 2002: 3):

- knowledge about the relationship between CSR and business performance;
- consensus between the various parties involved on an adequate concept taking into account the global dimension of CSR, in particular the diversity in domestic policy framework in the world;
- teaching and training about the role of CSR, especially in commercial and management schools;
- awareness and resources among SMEs;
- transparency, which stems from the lack of generally accepted instruments to design, manage and communicate CSR policies;
consumers’ and investors’ recognition and endorsement of CSR behaviours;
- coherence in public policies.

CSR in an International Frame

Incorporating European activities into an international frame, one can state that there are a lot of networks concerning Corporate Social Responsibility. Among others, these are based on concepts of the United Nations (United Nations Global Compact – United Nations (UN) Compact Office, 2003) and the International Labour Organization (Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy – International Labour Organisation (ILO), 1977).

The UN Global Compact was proposed by the United Nations Secretary General in 1999 and seeks to advance responsible corporate citizenship so that business can contribute to the challenge of globalization. Global Compact is a network including all relevant social actors for – among others – sharing good practices and learning. The Global Compact’s nine principles are based on The Universal Declaration of Human Rights, The International Labour Organization’s Declaration on Fundamental Principles of Rights at Work and The Rio Declaration on Environment and Development.

The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy of the ILO refers to 28 international Labour Conventions and Recommendations and sets out principles in the fields of employment (employment promotion, equality of opportunity and treatment, security of employment, training) conditions of work and life (wages, benefits and conditions of work, safety and health) industrial relations (freedom of association and right to organize, collective bargaining and consultations (examination of grievances, settlement of industrial disputes). Many of these more principal recommendations are in place in western industrialized countries and therefore may be of more importance for industrially developing countries.

In western industrial countries, the topic of Corporate Social Responsibility is driven by a number of international networks. As examples, ‘Corporate Social Responsibility Europe (CSR Europe)’, ‘Business for Social Responsibility (BSR)’, ‘The Corporate Social Responsibility Forum of the International Business Leader Forum’ or ‘The World Business Council for Sustainable Development’ shall be described.

CSR Europe is a business-to-business network built up of 15 national and international partner organizations from 12 different countries. The aim is to help companies achieve profitability, sustainable growth and human progress by placing Corporate Social Responsibility in the mainstream of business practice (www.csreurope.org). One of the main objectives is to encourage dialogue between stakeholders.

Business for Social Responsibility (BSR) is a global non-profit organization that helps more than 1400 member companies to achieve commercial success in ways that respect ethical values, people, communities and the environment (www.bsr.org). In this sense CSR is understood as a comprehensive set of policies, practices and programmes that are integrated in business operations, supply chains and decision-making processes. In its broadest categories, CSR includes business ethics, community investment, environment, governance, human rights, marketplace and workplace. As investors and consumers are increasingly demanding that companies be accountable for the environmental and social impact of their operations and those of their business partners, it becomes more
and more obvious that globalization means more than simply doing business as usual on a global scale (www.bsr.org/BSRServices/2003/index.cfm).

The International Business Leader Forum (IBLF) also includes a CSR Forum, which provides information and case studies concerning socially responsible business activities. Although there are different issues for different industries, IBLF has a number of key themes with which all sectors can identify themselves:

- human rights, labour and security,
- enterprise and economic development,
- business standards and corporate governance,
- health promotion,
- education and leadership development,
- human disaster relief,
- environment.

As different regions of the world present different economic, social and environmental challenges, global acting companies should be aware of these differences (www.csrforum.com).

The World Business Council for Sustainable Development (WBCSD) has always stressed that sustainable development rests on three pillars: economic growth, ecological balance and social progress. As a driver for social progress, CSR helps companies live up to their responsibilities as global citizens and local neighbours in a fast-changing world (www.wbcsd.org). In that sense, CSR is defined as the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

The aims of WBCSD include business leadership on issues connected with sustainable development, policy development to create a respective framework, best practice to demonstrate progress and global outreach to contribute to a sustainable future for developing countries and countries in transition (WBCSD, 2003).

**CSR, Sustainability and Stakeholder Orientation**

Looking at a broader scope, CSR is connected with the ideas of sustainability and stakeholder orientation. Both concepts are not really new, but they are getting a new relevance under changed frame conditions such as globalization or ‘misuse’ of economic power. Some of the economic developments of the last decade have been focused on maximizing shareholder values. In the meantime, it has become more obvious that sustainable success depends not only on the shareholder, but also on all (other) relevant stakeholders of an organization.

The concept of sustainability has been discussed for years within the international community. The Rio de Janeiro Conference on Environment and Development in 1992 was a starting point to promote these ideas, which in the meantime have been included in several evaluation concepts.

From a promotional perspective, the evaluation of companies acting in a sustainable way is of specific relevance. Such an evaluation is, for example, done by the Sustainability Index of the SAM Sustainability Group, which is delivering data for the Dow Jones Sustainability Group Index (SAM Sustainable Asset Management 2004). The assessment
is based on a Corporate Sustainability Questionnaire, which has a stakeholder orientation and includes specific CSR concepts. Information on the following fields of sustainability is demanded:

(a) Economic and financial criteria (examples):
- Tools for strategic planning in highly uncertain issues.
- Corporate Governance Standards.
- Organizational dimensions including core values.
- Responsibility for Knowledge Management.
- Implementation of a TQM system.
- Responsibility for information technology.
- Codes of conduct concerning corruption and bribery.
- Risk and crisis management.

(b) Environmental Criteria (examples):
- Responsibility for environmental issues at the highest management level.
- Corporate environmental policy.
- Environmental charter signed or committed to the principles of sustainability.
- Environmental management system.
- Publicly available information on environmental activities.
- Evaluation of environmental performance.
- Environmental profit and loss accounting.

(c) Workforce and social criteria (examples):
- Responsibility for social matters at the highest management level.
- Corporate social policies.
- Involvement of stakeholders in developing business strategies.
- Public information on social activities.
- Regular evaluation of job satisfaction.
- Child care facilities.
- Offer of stock options.
- Policy concerning equal rights.
- Public available policies and standards of occupational health and safety.

The performance of the Dow Jones Sustainability Index for the last 10 years shows that a sustainability approach based on these issues pays off.

As described above, Socially Responsible Investment (SRI) is also a relevant part of the policy of the European Union to promote CSR by rating organizations on criteria and indicators that identify the factors of competitive advantage and business success of socially responsible enterprises (European Commission, 2002).

As well as the above-described questionnaire approach, all stakeholder oriented excellence assessment concepts, such as the EFQM Model for Excellence, can also be used. In addition to the ‘regular’ Excellence Model, the EFQM has developed a Framework for Corporate Social Responsibility (EFQM 2004).

**Summary**

During the last few years stakeholder oriented concepts have got a new relevance.
International excellence concepts have been focused on core stakeholders such as customers, shareholders, employees and society. All these models are coming from a Total Quality Management culture looking for sustainable success in including these relevant stakeholders.

The vision of the European Council for 2010, seeing Europe as ‘the most competitive and dynamic knowledge-based economy in the world – capable of sustainable economic growth with more and better jobs and greater social cohesion’ (European Commission, 2002: 4) initiated a Corporate Social Responsibility policy, which in other parts of the world also plays an important role. Here again stakeholder orientation and sustainability are key features.

Sustainability Indexes in the stock market and respective funds are other excellent concepts, which will help to promote sustainability, because companies have a growing interest to become listed in these indexes, as more and more institutional investors are showing their interest in sustainability investing (see for example DJSI, 2004b).

To repeat it once more: sustainability, corporate social responsibility or stakeholder concepts are not new at all. But they are relevant concerning changed frame conditions.

Sustainable excellence is a very demanding task, because national and global challenges are changing permanently. However, the use of respective excellence models as basis for a regular evaluation is a precondition for systematically approaching this goal – especially if these assessments are used as a precondition for the strategic and operative planning and deployment processes.

References


