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PAGE 10 MISSING
A Framework for Corporate Social Responsibility Analysis

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Submitted to the Alfred P. Sloan School of Management in Partial Fulfillment of the Requirements for the Degree of

Master in Science of Management

at the

Massachusetts Institute of Technology

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Abstract

The purpose of this thesis is to provide a new and practical framework for corporate social responsibility analysis. The increasing importance that this subject is acquiring in our current society can be observed from many perspectives. First, changes have been introduced in corporate governance in the last few years. Second, the number of courses related with social issues in the most important business schools and finally, the increase amount of scientific papers related to this topic.

At the same time, being able to have a quick snapshot of the possible issues that any company can face in this subject can be extremely useful. The different stakeholders and the complex relationships and trade-offs are analyzed in this thesis.

Thesis Advisor: Dr. Otto Scharmer
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INTRODUCTION

In the last 5 years, terms like “Corporate Social Responsibility”, “Corporate Governance” or even “Corporate Social Responsiveness” have acquired a new dimension. Part of this change is caused by accountability scandals like ENRON in the United States of America or, more recently PARMALAT in Italy, Europe. A more positive way of understanding the increase of awareness about Social responsibility of corporation is considering that society is aware of its own social responsibility as consumers and this is making the businesses to change.

The iteration between business and society is complex and usually not easy to understand. The simple approach of “business produces and society consumes” is too simple to figure out the impressive amount of iterations between the society and a business, even a small one.

Part of these iterations are specially controversial, like using lie detector for recruiting by the human resource departments of large corporations, toxic waste disposals, drug testing in employees, sexual harassment issues, minority rights, health safety of cell phones, … and an almost infinite list of different possible issues.

This thesis will address the most common problems between society and businesses, the actors in both parts and the different responsibilities.

The concept of business used in this theses is “a collection of private, commercially and profit oriented organization, of different sizes (from 1 person to large corporations) and activities (all different industries).
Most of the scandals we have heard and read about in the last few years are, of course, related to large corporations. This is mainly because of the absolute consequences of its wrong decision and habits. At the same time, we cannot forget that small and medium enterprises often make these mistakes too, and many times more often, as they can act in anonymity.

Although a social responsible behavior is a must in any industry, some of the industries should (and in fact they do) care a lot more than others, mainly because of the nature of their activities and products. The most typical industries that usually take care are pharmaceuticals, oil industry, automotive and parallel industry.

In this thesis, the term social or society will be considered as broad as possible. Society can be the global community, a nation or a group of people having common tradition, values or interests. In most democratic modern economies, the diffusion of power among the society is a fact. This pluralism or distributed power and wealth, usually affects the relation between business and society as corporations had to respond to criticism from one or more of these groups of power.
CORPORATE SOCIAL RESPONSIBILITY

1.1.-DEFINITION:

There are a lot of definitions in the literature about the corporate social responsibility. The most accepted one, although with some important exceptions and variations, would be:

“Corporate social responsibility is considering the impact of the company’s actions in society, implying the considerations of its acts and consequences in terms of a whole social system and the responsibility anywhere in that system”

“is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. Consequently, behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation” [Michael Hopkins, 1998]”

“Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit”[Hudson's Bay Company is Canada's oldest corporation and largest department store retailer]

“how companies manage the business processes to produce an overall positive impact on society”
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All the definitions are very similar, although many of them are focused in different aspects of the socially responsible behavior. None of them is wrong; it’s only a different point of view of the same problem.

1.2.- Reasons for Corporate Social Responsibility

Corporate Social Responsibility is not only a moral or ethical issue for any manager. There are a lot of points why a company should behave ethically, even for their own interest in bottom line results. Here are some examples of benefits of CSR (Business Social Responsibility source):²

- **Improved Financial Performance** In the last decade an increasing number of studies have been conducted to examine this link. One of the more recent analyses (a 2002 DePaul University study)³ showed that overall financial performance of the 2001 Business Ethics Best Citizen⁴ companies was significantly better than that of the remaining companies in the S&P 500 Index, based on the 2001 Business Week ranking of total financial performance.

- **Reduced Operating Costs:** Some CSR initiatives can reduce operating costs dramatically. For example, some recycling initiatives cut waste-disposal costs and generate income by selling recycled materials.

- **Enhanced Brand Image and Reputation:** Customers often are drawn to brands and companies with good reputations in CSR-related areas. The Nike media problems with child labor a few years ago almost kill its brand.

- **Increased Sales and Customer Loyalty:** Market research show a growing trend of buying products from well known corporate social responsible firms.²
  
  o A 2001 Hill & Knowlton/Harris Interactive poll showed that 79% of Americans take corporate citizenship into account when deciding
whether to buy a particular company’s product; 36% of Americans consider corporate citizenship an important factor when making purchasing decisions.

- A 2002 Cone Corporate Citizenship Study found that of U.S. consumers who learn about a firm’s negative corporate citizenship practices, 91% would consider switching to another company, 85% would pass the information to family and friends, 83% would refuse to invest in that company, 80% would refuse to work at that company and 76% would boycott that company’s products.

- **Increased Productivity and Quality**: Company efforts to improve working conditions, lessen environmental impacts or increase employee involvement in decision-making often lead to increased productivity and reduced error rate.

- **Increased Ability to Attract and Retain Employees**

- **Reduced Regulatory Oversight**: Corporate social responsibility can avoid regulation in many industries, as it will be considered as a substitute.

- **Access to Capital**: The growth of socially responsible investing (SRI) means companies with strong CSR performance have increased access to capital that might not otherwise have been available.

### 1.3 Business Ethics

In the last decade, the importance of business ethics has grown a lot mainly because the different financial and ethical scandals in very large corporations. Enron case and the more recent Parmalat case in Europe had shown the lack of business ethics in managers, even in large companies.
The National Business Ethics Survey\(^5\) made in the year 2000 a United States representative telephone survey of 1,500 U.S. employees. The survey asked employees about formal ethics programs as well as informal ethics practices in the companies or organizations for which they work.

The 2000 survey had two main purposes. The first was to gather reliable data on key ethics and compliance outcomes for use in benchmarking by interested organizations. The second is to help identify and to better understand ethics issues that are important to employees. In fulfilling these purposes, the survey provides continuity in measuring traditional ethics and also gathers new data in areas of emerging interest.

One of the advantages of the National Business Ethics Survey is that its focused in the perceptions of employees at all levels, and not only what leaders and managers think about business ethics. The analysis of the data will provide information that can be used by organizational leaders to benefit the organizations and the employees who work for them.

The development of the 2000 survey to write the report was guided by a group of advisors chosen for their subject matter expertise and for their diverse perspectives. Most of the advisors where ethics officers of Fortune 1000 companies, directors of ethics centres, academic researchers in organizational ethics and professionals in related fields. Advisors also represent the government, for-profit and non-profit sectors. Their guidance benefited both the research process and the content of this report. The Ethics Resource Center (ERC) took full responsibility for all final content.
Evolution of the Business Ethics in the US

In the last years, employees, managers and society in general have become aware of the situation of the business ethical problem. As can be observed in the figure 1 is not that the companies' behaviour is less ethical in than in the past. However, the gap between the expectations of the society has grown, so the ethical problem has grown too.

Figure 1: Evolution of Expectations and Business Ethics
(Source: A.B. Carroll, A.K. Buchholtz, “Business and Society"

14
Major Findings of the National Business Ethics Survey of the Year 2000s

- Ethics outcomes in the 2000 NBES are favourable in comparison to the 1994 Ethics in American Business survey (EAB).

- Formal ethics programs are positively related to ethics outcomes such as reports of misconduct and employees feeling more valued.

- Formal ethics programs are more strongly related to ethics outcomes when organizations are in periods of transition.

- The application of key ethical values in the workplace is positively related to ethics outcomes such as employees feeling less pressure to compromise ethics standards and observing less misconduct.

- The modelling of ethical behaviour by organizational leaders, supervisors and co-workers is positively related to ethics outcomes such as employees being more satisfied with their organizations overall and feeling less pressure to commit misconduct.

- One in eight employees feels pressure to compromise their organizations’ ethics standards.

- Almost two-thirds of all employees who feel pressure to compromise their organizations ethics standards attribute this pressure to internal sources - supervisors, top management and co-workers.

- Almost two-thirds of all employees who feel pressure to compromise their organizations ethics standards attribute this pressure to internal sources - supervisors, top management and co-workers.

- Employees with longer tenure in their organizations feel more pressure to compromise their organizations’ ethics standards.
• About one in every three employees observes misconduct at work.

• The five types of misconduct observed most frequently include:

  1. Lying;
  2. Withholding needed information;
  3. Abusive or intimidating behaviour toward employees;
  4. Mis-reporting actual time or hours worked
  5. Discrimination.

• Employees who feel pressure to compromise ethics standards also observe more misconduct in the workplace.

• More than two in five employees do not report the misconduct they observe at work.

• Approximately one in three employees fears retaliation by management and co-workers if they report misconduct or other ethics concerns.

• Two in five employees who report misconduct are dissatisfied with their organizations' response.

• Employees' past satisfaction with their organizations' response to reported misconduct is related to their fears of retaliation for future reporting.

• Employees say that their organizations' concern for ethics is an important reason that they continue to work there.

• Many employees believe that, overall, their supervisors and organizational leaders talk about and model ethical behaviour at work.

• Senior and middle managers' perceptions about ethics in their organizations are consistently more positive than those of lower level employees.
• There are relatively few differences in the ethics perceptions of employees in the government, for-profit and non-profit sectors

Major Findings of the National Business Ethics Survey 2003

The 2003 National Business Ethics Survey (NBES) made a survey again with employees in the 48 continental states to share their views on ethics within their organizations. The survey is based in questions related to how employees distinguish right from wrong behaviour in their work, the availability of resources to make appropriate decisions, and the general values like honesty and respect in their companies. Again, the survey was made within 1500 participants, focused primarily in the next areas

• Ethics practices of executives, supervisors and co-workers
• Prevalence of formal ethics programs
• Pressures to compromise ethics standards
• Misconduct at work and the influences on reporting it
• Frequency with which certain ethical values are practiced
• Accountability for ethics violations

There were many factors that could influence this survey, as the business environment was rare. The years between the survey of 2000 and the survey of 2003 have brought the end of the dot com boom, an economic crisis after 10 years of economic growth and a series of large and media covered scandals among large corporations and non-profit organizations. At the same time, the reaction of the legal system, including the Sarbanes-Oxley act of the year 2002, the new Security Exchange Commission regulations and the New York Stock Exchange rules tried to stop a very dangerous trend in American (and
maybe the rest of the world) corporations. The success or failure of these actions will be seen in the next decades. These events will explain partly the results of the National Business Ethics Survey of the year 2003.

In general, employees in 2003 were more aware of business ethics than in previous survey years. Business leaders focus more attention on issues and concerns relating to ethics. This awareness did not result in employees' viewing business ethics in their own organizations more negatively. Though major vulnerabilities and challenges remain, findings from the 2003 NBES are surprisingly hopeful.

**Key Findings of the NBES 2003 Survey**

**Evolution of Employees' Perceptions**

Perceptions of ethics are generally positive. Employees view ethics in their organizations more positively in 2003, as compared with 2000. The NBES survey data indicate that:

- Employee perceptions that top management talks about the importance of ethics, keeps promises and models ethical behaviour have all increased since 2000. For example, 82% of employees in 2003 said that top management in their organizations keeps promises and commitments, as compared with 77% in 2000. In addition, the increases between 2000 and 2003 tend to be more substantial in larger (over 500 employees) versus smaller organizations.

- Two key indicators of ethics-related problems in the workplace - (1) observed misconduct and (2) pressures to compromise ethics standards - have declined since the 2000 Survey. Observed misconduct dropped from 31% in 2000 to 22% in 2003, while pressure fell from 13% to 10% during this time period.

- Declines in observed misconduct and pressure have occurred primarily among non-management employees.

- Reporting of misconduct by employees has increased steadily in the Surveys conducted in 1994 (48%), 2000 (57%) and 2003 (65%).
- Employees indicate that values such as honesty and respect are practiced more frequently in their organizations in 2003.

![Evolution of Perceptions](image)

Figure 2: NBES, Evolution of Perceptions

**Misconduct Treatment and Increase**

As indicated in the next figure, there is still a lot of misconduct observed by employees in their organizations. The existence and the reporting of misconduct behavior have also some trends mainly related to the situation of the organization (for example, a merge or an acquisition) or to the age and seniority of the employee (senior management use to report misconduct while young employees usually never do).
The types of misconduct most frequently observed in 2003 include: abusive or intimidating behaviour (21%); misreporting of hours worked (20%) lying (19%); and withholding needed information (18%).

Employees in transitioning organizations (undergoing mergers, acquisitions or restructurings) observe misconduct and feel pressure at rates that are nearly double those in more stable organizations.

Compared with other employees, younger managers (under age 30) with low tenure in their organizations (less than 3 years) are twice as likely to feel pressure to compromise ethics standards (21% versus 10%).

Despite an overall increase in reporting of misconduct, nearly half of all non-management employees (44%) still do not report the misconduct they observe. The top two reasons given for not reporting misconduct are:

- A belief that no corrective action will be taken and
Fear that the report will not be kept confidential.

- Younger employees with low tenure are among the least likely to report misconduct (43% as compared with 69% for all other employees). They are also among the most likely to feel that management and co-workers will view them negatively if they report.

- Less than three in five employees (58%) who report misconduct are satisfied with the response of their organizations.

- In many areas, views of ethics remain "rosier at the top." For example, senior and middle managers have less fear of reporting misconduct and are more satisfied with the response of their organizations. They also feel that honesty and respect are practiced more frequently than do lower level employees.

**High Influence of Ethics Programs in Ethics Behaviour**

The existence of an ethics program in any kind of organization (i.e. ethics training, written standards of conduct, ethics offices and a system and process to report misconduct anonymously) has a great influence in the perceptions and importance of ethical behaviour.

- The presence of ethics program elements is associated with increased reporting of misconduct by employees. Specifically, employees are most likely to report in organizations with all four program elements in place (78%). Employee reporting declines steadily in organizations with fewer program elements such as: written standards plus (67%), written standards only (52%) or none (39%).

- Ethics programs are associated with higher perceptions that employees are held accountable for ethics violations.

- In larger organizations (over 500 employees), ethics programs are associated with lower pressures on employees to compromise company standards of business conduct.
Ethics behaviour begins in top management

Misconduct, pressure, reporting and other outcomes are strongly related to the actions of top management, supervisors and co-workers.

- Employees who feel that top management acts ethically in four areas (talks about the importance of ethics, informs employees, keeps promises, and models ethical behaviour), observe far less misconduct (15%) than those who feel top management only talks about ethics or exhibits none of these actions (56%). Findings for pressure, accountability and satisfaction are similar.

- When employees feel that their supervisors and co-workers act ethically, the relationships to observed misconduct, pressure and related outcomes is similar to that for top management.

Large companies have done it better in the last three years

There is a high correlation between the size of the organization and the Ethics perception of its employees:

![Small vs Large Companies](image)

Figure 4: NBES, Small Vs. Large Companies
• Smaller organizations (less than 500 employees) are less likely to have key elements of ethics programs in place than larger ones. For example, 41% of employees in smaller organizations say ethics training is provided, as compared with 67% in larger organizations. Similarly, 77% of employees in larger organizations say that mechanisms to report misconduct anonymously are available, versus 47% in smaller organizations.

• Employee perceptions of ethics in smaller and larger organizations converged in 2003. This finding contrasts with the 2000 survey findings, which showed employees in smaller organizations generally holding more positive views of ethics. The convergence is due primarily to more positive ethics trends in larger organizations between 2000 and 2003.

As executives are increasingly called upon to "certify" the integrity of their organizations, ethical business leaders may have greater concern that the actions of one or more employees could eventually compromise their companies. Certainly, there is evidence in the 2003 NBES that concerns are warranted: views of ethics are still "rosier at the top," while pressures to compromise standards and fears of reporting misconduct are greater among particular groups of employees. Important challenges also remain in a variety of related areas for business leaders, their organizations and their employees.

But as a snapshot of business ethics in 2003, the NBES findings and trends are also positive and hopeful. Where leaders, supervisors and co-workers are talking about ethics and setting the right example, employees have taken notice. Where systems are in place to help make ethics a priority, employees are responding. In both cases, organizations appear to benefit. And where some corporations have recently failed due to ethical violations, their negative examples may help others to make better choices. As difficult as it may be, this is often how people learn and organizations improve.
**Ethics Offices and the Ethics Officer**

In the last few years, many companies (especially large ones) have created the Ethics Office and the Ethics Officer—many motivated by scandal—These offices often failed to consider what would be the most effective organizational, reporting, and functional structures of an ethics office. Ethics offices are very difficult to manage, as they have extremely different missions and they report to any of a great number of other corporate entities.  

The mission of the ethics office is vast like no other within a company. In most cases, the ethics office is responsible for communicating, monitoring, and enforcing corporate values and standards at every level. Business ethics office issues may overlap with legal or human resource concerns, although they are unique and require special handling. In the ideal case scenario, the ethics office should be an entity unto itself that maintains positive, open, and ongoing relations with such key departments as legal, human resources and auditing. To be effective, ethics offices also require the autonomy and the organizational power necessary to deal with the resistance to change.

In most of the companies the ethics officers report directly to the CEO or the top management, although they usually report to external actors like general counsel, security, finance or auditing. At the same time, it’s very difficult to find an ethics officer in the high management team of any company. This failure to invite the ethics officer to the decision making table, sends a confusing message to employees: that business ethics is not a senior executive concern.

Recent events in corporation of America and Europe have once again demonstrated the devastating effects that occur when the leadership of a company does not behave ethically. In order to rebuild trust in the business community, the system of accountability of the American and European private and public companies must be redefined. In the future, ethics officers should also report directly and of course truly to the audit or ethics committee of the board of directors.
Global companies should also address additional ethical problems due to different ethical and moral values in the world. Nike case, with child labour in South East Asia is a perfect example of global ethics. Yet, when rolling out any program to international locations, the company can discover that the format of the program did not fare as well as it did within western countries.
Chapter 2

THE STAKEHOLDERS

2.1.- Definition of Stakeholder

In 1996, the Labourist government of the United Kingdom, leaded by Tony Blair, began to talk about a migration from a shareholder business management to a stakeholder one. This definition contrasted with the traditional role of the company that is maximizing profits.

Organizations must address the needs and expectations of stakeholders in order to be successful in the long term and because it’s ethical to do so.

The term stakeholder is a variation of a previous one called stockholder or shareholders, i.e. the investors or owners of the businesses. However, the stakeholder is a broader definition, as it includes not only the stockholders, but also employees, customers, providers, etc.

We could define a stakeholder as any person or group of people that has at least one stake in a business. An stake is an interest or a share in an undertaking. There are three kinds of stakes:

1. **Interests**: A sense of concern about some business action
2. **Rights**: There are at the same time two kinds of rights,
   a. **Legal Rights**: The state gives a person or a group a legal claim to protect a particular right (example, guarantee period of a product).
b. **Moral Rights:** Ethical or moral behaviour is expected, so a person or a group of person can have a particular right to defend

3. **Property:** A person or group has a legal title or an asset to a property.

The iteration between business and its stakeholder is bidirectional. On the one hand, a stakeholder can be affected by the actions, policies, decisions of the business firms and on the other hand, the stake holders can also affect the flow and decisions of a business. In this context, a stakeholder can be described too as a person or group of people that can affect or be affected by the actions, decisions, policies, practices or goals of the organizations.

### 2.2 Classifications of stake holders

Stakeholders can be classified in many different ways. In this thesis, the differentiation will be the between external and internal ones. However, there are other ways of classifying them. Wheeler and Sillanpaa\textsuperscript{10} classified between primary and secondary and social and non social stakeholder. The primary stakeholders are those with a direct stake in the business (shareholders, employees, customers, suppliers and partners). Secondary stakeholders have an stake but more representational of public or special interests than direct (for example, government, social pressure groups).

Stakeholders can also be non social institutions. As an example, the natural environment, or even the future human generations can be interpreted as a stakeholder. Again, for non-social stakeholders a primary and secondary differentiation can be made.
An alternative way of classifying the stakeholders is between CORE, STRATEGIC AND ENVIRONMENTAL. Core stakeholders are those that are essential for the survival of the organization. Strategic stakeholders are those vital to the organization in a particular point in time, but no so important in other moments. Finally Environmental stakeholders are all the rest.\textsuperscript{11}

As mentioned in the previous paragraphs, the thesis and the framework in chapter 4, will differentiate between external and internal stakeholders and the relationships between them. Internal stakeholders are those directly related to the company, as the employees and managers, the consumers, suppliers. External stakeholders are those that can influence the company but do not really directly relate to it (government, environment, global communities, etc).

\section*{2.3 Stakeholder Management}

Any business has to think in strategies and actions to manage its stakeholders. In every decision making, taking into account all the possible outputs of the acts, including those ones that affect any of the stakeholders should be taken into account.

The next graph given by Savage, Nix, Whitehead and Blair\textsuperscript{12} explains the different stakeholders and the strategy that best matches their needs.
1. **Supportive Stakeholders**: They have a very high potential to collaborate and its difficult that they become a threat. Usually, these are the internal or the primary ones. Examples can be the shareholders, employees, managers, etc.

2. **The Marginal Stakeholders**: Low potential for collaboration and low potential for threat. The strategy to manage these stakeholders is to monitor the situation to make sure that it does not change.

3. **The Non supportive Stakeholders**: High in potential for threat and low for collaboration. These are the worst and the more risky stakeholders. Governments are
the typical example, although unions and the media can also be in this group. The management strategy in this case is to defend.

4.- **The Mixed Blessing Stakeholder**: High on both, potential for collaboration and for threat. They are usually in an unstable situation, and their trend is to move to supportive or non-supportive, depending on their grade of satisfaction. The strategic management of this type of stakeholder is Collaboration, as then is usually to move them to a supportive situation.

### 2.3.1 Principles of Stakeholder Management

These principles were defined by Max Clarkson in the University of Toronto in his founded Centre for Corporate Social Performance and Ethics, now renamed into Clarkson Centre for Business Ethics and Board Effectiveness.¹³

Clarkson set seven principles of Stakeholder Management, each one with a paragraph or two expanding on its meaning. These principles represent an early stage general awareness of corporate governance concerns that have been widely discussed in connection with the business scandals of 2002, 2003 and 2004.

The principles are ¹³

**Principle 1**: Managers should acknowledge and actively monitor the concerns of all legitimate stakeholders, and should take their interests appropriately into account in decision-making and operations.

**Principle 2**: Managers should listen to and openly communicate with stakeholders about their respective concerns and contributions, and about the risks that they assume because of their involvement with the corporation.

**Principle 3**: Managers should adopt processes and modes of behaviour that are sensitive to the concerns and capabilities of each stakeholder constituency.
Principle 4: Managers should recognize the interdependence of efforts and rewards among stakeholders, and should attempt to achieve a fair distribution of the benefits and burdens of corporate activity among them, taking into account their respective risks and vulnerabilities.

Principle 5: Managers should work cooperatively with other entities, both public and private, to ensure that risks and harms arising from corporate activities are minimized and, where they cannot be avoided, appropriately compensated.

Principle 6: Managers should avoid altogether activities that might jeopardize inalienable human rights (e.g., the right to life) or give rise to risks which, if clearly understood, would be patently unacceptable to relevant stakeholders.

Principle 7: Managers should acknowledge the potential conflicts between (a) their own role as corporate stakeholders, and (b) their legal and moral responsibilities for the interests of all stakeholders, and should address such conflicts through open communication, appropriate reporting and incentive systems and, where necessary, third party review.

In many ways, the Clarkson Principles are “meta-principles” that encourage management to embrace specific stakeholder principles and then to implement them in accordance with the norms listed above. Their current use seems largely hortatory, unlike principles or codes that call for formal adoption by managers or corporations.
Chapter 2

THE FRAMEWORK

3.1 - Introduction

The analysis of the situation of a corporation in its social responsibility is not an easy task. First, because of the large amount of issues that can affect the social responsibility of any business and second, because each industry, market and corporations will have its own environment and context.

The framework proposed in this thesis, will explain the different stakeholders and the possible and most typical issues in which usually corporations fail to behave responsible. Of course, these issues are not all the possible ones and in some cases, they won’t be the most important ones. However, the framework can be a useful guide to analyze the possible failures of a corporation or even to define new issues to be added to it.

The finality of the framework is not to provide a perfect tool to be able to analyze all the possible different companies, but to provide a useful and practical way to develop a new framework that perfectly fits each company.
3.2 Layer One Stakeholders

3.2.1.- Employees and Managers as Stakeholders

There are not any other activities in most of men and women that take more time and attention than their work. Through work, people know personal success and find a measure of their own self worth. The importance of work in any person is obvious, and it can provide both joy and frustration, integrity, success. Simultaneously, the lack of work, i.e. unemployment, can bring lost of skills, lack of morale, psychological problems and personal and interpersonal problems.

The expectations of the company from the point of view of the employee have changed in the last quarter of the previous century. At the same time, the manager expectations of their employees have changed too. Simultaneously, globalization has affected this relationship and expectations, primarily caused by global competition between businesses, but also global competition of workers.

The employee rights movement has expanded in the developed world, but this improvement has not been translated into a better situation in developing countries.

If we ask our parents, they were expected to stay in the same job for all his professional life; they used to have a perfect stable job. Nowadays, the situation is almost the opposite. People used to change jobs, increasing the mobility and the employee turnover. Simultaneously, the companies do not feel that they have to deliver a promise of long life jobs to their employees. This new relationship is characterized by a premium risk, but also by a premium reward in case of success, as payments are nowadays more related to performance and value added than to longevity in the firm. So now the employees are more responsible of their own success.\textsuperscript{14} Some authors have called this change from paternalism to partnership\textsuperscript{15, 16}
The three main causes of this change in the relationship between businesses and employees are:  

1. Extreme market and global competition
2. Technology revolution, specially in information technologies
3. Deregulation (that is related to the increase in competition)

**Employee Related Issues**

The development and evolution of employee rights during the twentieth century has limited and defined the relationship between businesses and their employees. The employee rights directly limit the private property characteristic of any private business as the reciprocal enterprise rights limit the behavior of the employees. These second rights include the right to due process in discipline, the right to express standards for personnel evaluation, etc.

**Unjustified Firing**

In developed countries, the employees use to have the right of not to be fired without a just cause. This opposes directly to the fact that the relationship or contract between the business and the worker is a voluntary one and can be finished whenever any of both parts want to. Usually employee maintains this right (workers can usually leave a company without any justification) but in most countries, the businesses have lost this right.

There is a common problem in this right. The definition of a just cause is very subjective and many times, firing process go to court to decide if it was justified or not.
**Fair Treatment Right**

Basically, is the right to receive and impartial jury in order to deal with justice any conflict in the company. It’s usually guaranteed by a due process, that can be use when the employee is going b demoted, unwillingly transferred or fired.\(^{17}\), \(^{18}\)

**Freedom in the Company**

The freedom right includes many issues like freedom of speech, freedom to become part of a union, etc.

The main issue that a company should take care is if their employees have this freedom in practice. In many situations, specially when the employee reports to any public organization (media, government, justice agency) any practice within the organization that is either illegal or unethical, the employee suffer its consequences.

Firing is not the only way that a company can make an employee feel uncomfortable working. Some other actions that use to happen and that are illegal in most of the developed countries are:\(^{19}\)

1. Worse work assignments
2. Higher criticism in work duties
3. Heavier workloads
4. Lost of privileges (parking, mobile phone, etc)
5. Exclusion from meetings
6. More difficult career promotion

**Privacy of the Employee**
In the last years, the concerns about privacy issues have acquired an importance as never in the history. Much of this new situation is caused by the development of Information Technology and the ability to manage large amounts of information in digital electronic databases.

Although the definition of privacy is not an easy task, it can be defined as the right to freedom from unauthorized intrusion. Increasing use of e-mail, cell phones, closed-circuit surveillance cameras, checkout scanners and other technologies has made it easier to gather volumes of information about individuals-including buying and spending habits, finances, lifestyles, preferences, and movements. Concerned about how these growing databases will be used and the rise of companies that openly trade in consumer information, consumer advocate and privacy watchdog groups are calling for legislated protection.

Usually employee privacy issues (as with consumers and customers) are regulated especially in Europe. In terms of employee privacy, there are 5 important issues that a company should take care:

1. Electronic or physical employee information databases: They are usually made and maintained by the human resources department. The privacy is an issue, but also the security in which the files are stored

2. Monitoring Electronically the employee work: Recent cases affecting the privacy of the employees like reading the emails, or spying the use of the Internet have acquired an important role in the policy of some business. In many countries, these practices have been prohibited.

3. Human Resources Hiring Process: Extended all around the world, in a very competitive job market, employees are required to do many different tests before being hired (personality tests, IQ tests, integrity tests, and even drug tests)
**E-Privacy**

In the past, *privacy* issues were mostly focused on phone conversations. The advance of technological innovations has changed not only how we work, but also the concerns about privacy in the workplace. Now you have more heightened concerns about *privacy* because there's more conflict.\(^{20}\) The particular case of the *e-mail* and the Internet deserves its own apart because of its importance. There is a conflict between the employer's interest in controlling its use and the employees' rights to control their communication. Again, the private property conflicts with the ethical behavior. In most offices the computers are owned by the firm, so the firm feels that it has a right to control the use of its property for what they need to. At the same time, employees feel that e-mail or the Internet is their form of communication, so the company cannot attack their privacy to read or spy their personal internet messages or WebPages.

There are two main reasons why the employers want to be able to control and investigate the email and internet uses of their employers. First, the efficiency of the workplace—they don't want people goofing off, sending personal *e-*mail all day or going on the Internet on company time. And second, employers are exposed to a significant liability with Internet access that they wouldn't be quite so exposed to in telephone usage. You get into areas of pornography, hate mail, hate groups. Porn obviously is one of the characteristic situations companies run across.

This second problem raises all sorts of concerns about sexual harassment, racism and other issues. Companies face problems with people sending an off-color joke, and if the company knows or should know about it, it's going to be held liable for letting that kind of conduct go on. The second area that comes up—and it's not as common as the porn Web sites, jokes or sexual-harassment issues—is with hate groups.
3.2.2.-Shareholder as a stakeholder, Corporate Governance

The accountability scandals that the United States and many western European countries faced in the last decade have shown a lack of protection of the stockholders. The Enron case in Corporate America and the Parmalat case in Italy are two of the most spectacular cases, but unfortunately not the only ones.

The root of the conflict is in the separation of the control of the firm and the ownership in modern and large corporations. At the beginning, most of the owners were also the managers of the companies. As the companies grew and went public, the ownership dispersed so no one or group owned enough shares to control the company. These evolution concentrated most of the power in the management team more than the stockholders, that were seeing themselves more like investors than real owners. The next factor that also made possible those scandals was the election of the board of directors, as it was clearly influenced by the CEO of any company.

Although in theory the shareholders choose the board of directors that choose the CEO and the executive team, the practical way of working is not like that.

The components of the modern corporate governance system are, shareholders, board of directors, management team and employees.
Shareholder Issues

Board of Director Issues

Although by definition the board of directors will oversee management on behalf of the shareholders, this does not usually happen in real life. Usually, the board of director's components have strong ties with the management team and this causes a lack or independence necessary to develop their original task. Individually the scandals had a very important economic repercussion (ENRON was one of the largest corporations of the USA), but the most important problem was that the credibility of the whole economic system was shaken. Many changes have been made since them, part of them because regulation in many countries and part of them because of voluntary basis.

In current board of directors, there are an increasing number of outside directors, those who are not related to the firm, improving the independence of it. Another point that usually affects the independence of the board is the fact that the management team is the one that fixed the board of director's compensation policy.

CEO and Management Team Compensation

The controversial issue of whether Chief Executive Officer (CEO) compensation is excessive or appropriate is usually examined in terms of two competing claims: that CEOs are overpaid for the value they provide to an enterprise, and that CEO compensation is inherently equitable. Various arguments and perspectives on both sides of the issue can be assessed. Little evidence supports the claim that CEO performance justifies very high compensation. Further, the complex interactive alliance between boards of directors and CEOs compromises rational decision
making about CEO compensation, with the Enron affair offered as an illustration of what can go wrong when dishonest CEO actions combine with lax board oversight.\textsuperscript{23}

This is an issue for obvious reasons. CEO and management team compensation are a concern for managers, and conflicts between the personal interests with the interests of the shareholders.

In a ideal situation for the shareholders, the CEO’s compensation will be linked to the performance of the company. This is not the real case in many times, where the executive compensation grows while the profits are falling and falling\textsuperscript{24}

In a common situation, CEO’s compensation will be based in 7 points\textsuperscript{25}

1. Base Salary: Usually the largest part of the CEO compensation, and it’s not linked to the performance of the company
2. Annual Incentive: A reward related to meeting or exceeding the pre-established objectives.
3. Benefits: Includes health and retirement plan
4. Perquisites: Best offered as a mixed amount of allowance from which the executive can decide any relevant item
5. SERP: Supplemental executive retirement program to reflect their higher standard of leaving.
6. Executive Benefits: Supplemental executive benefits that reflects their higher standard of living

During the nineties, with an exuberant stock market, CEOs compensation was mostly tied to stock performance than to real market performance. This created a controversy with the amount of stock options that the management team was receiving. The 2001 crisis in the stock market stopped the growth, but it do not create
a radical decrease in their compensation. In fact, the amount of stock options that the CEOs are receiving now will easily become a good source

Evolution of CEO compensation

A just compensation system for both executives is fundamental to the creation of long-term corporate value. However, the past two decades have seen an unprecedented growth in compensation only for top executives and a dramatic increase in the ratio between the compensation of executives and rank-and-file workers. This trend can be observed in the next exhibit. In the year 2000, the compensation of the CEO was more than five hundred times the average compensation of the workers of the corporation where they were working.

![Average hourly worker to CEO pay ratios](image.png)

Figure 6: Average hourly worker to CEO pay ratios
(Source: Business Week)
In general, today's executive compensation packages are excessive. CEOs are usually awarded with compensation packages that are not needed to attract and retain talent and what is worse, poorly performing CEOs are usually very well paid. The main losers of these executive pay excesses are the shareholders, although we cannot forget the unfair situation with the employees too.

As explained before, a good executive compensation plan should align the interests of senior management with the long-term interests of the company and its shareholders. Pay-for-performance means rewarding executives for meeting explicit and demanding performance criteria and penalizing executives for failures to meet these goals as determined by the board of directors.

In the US, and according to *The New York Times*, last year the average CEO compensation of large US corporation received almost 11 million US dollars. Meanwhile, shareholders have lost $7 trillion over the past three years in the worst stock market decline since the Great Depression.

![Figure 7: Median CEO Pay Grew While Profits, Stocks Declined (Source: The New York Times)]
Stock options continue to be the largest component of CEO pay. As share prices have declined, CEOs have continued to receive large annual grants of new stock options with lower exercise prices. In effect, these new stock options will reward these CEOs for simply getting the share price back to its prior levels.

There is a failure with the stock-option compensation policy. It gives you a lot of money when there is a gain in share price, but it do not penalize the poor performance of those stocks in the market. As a result, they can encourage excessive risk taking by executives and can prompt executives to pursue corporate strategies designed to promote short-term stock price to the detriment of long-term corporate value.

Stock options are a significant cost for shareholders. According to the Investor Responsibility Research Center, the average potential dilution (meaning the percent of a company's shares that have been promised as stock options) reached a record 15.7 percent in 2002. And many companies still do not account for these stock options as a compensation expense.

-Yr. Total Compensation ($thou)

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reuben Mark/Colgate-Palmolive</td>
<td>$147,970</td>
</tr>
<tr>
<td>2</td>
<td>George David/United Technologies</td>
<td>70,527</td>
</tr>
<tr>
<td>3</td>
<td>Richard S Fuld Jr/Lehman Bros Holdings</td>
<td>67,682</td>
</tr>
<tr>
<td>4</td>
<td>Henry R Silverman/Cendant</td>
<td>60,023</td>
</tr>
<tr>
<td>5</td>
<td>Dwight C Schar/NVR</td>
<td>58,105</td>
</tr>
<tr>
<td>6</td>
<td>Lawrence J Ellison/Oracle</td>
<td>40,589</td>
</tr>
<tr>
<td>7</td>
<td>Richard M Kovacevich/Wells Fargo</td>
<td>37,842</td>
</tr>
<tr>
<td>8</td>
<td>Howard Solomon/Forest Labs</td>
<td>36,089</td>
</tr>
<tr>
<td>9</td>
<td>James E Cayne/Bear Stearns Cos</td>
<td>33,925</td>
</tr>
<tr>
<td>10</td>
<td>Todd S Nelson/Apollo-Education Group</td>
<td>32,812</td>
</tr>
</tbody>
</table>

Table 1: Top CEO Compensation in 2003
Insider trading issues

The issue consist that the management team uses critical information from inside the company to get a gain in their personal finance. The last example was Martha Stewart case in the US and selling 3,928 shares of ImClone Systems stock on Dec. 27, 2001, just before it plunged on a negative government report. Not all the insider trading from the management teams are illegal, and sometimes it can be a good source of information of future expectations of the company.27

Merger and Acquisitions issues

A merger or and acquisition usually affects to the management team of the smaller company (in the merger situation) or to the acquired one (in the acquisition situation). Many CEOs and boards try to protect themselves from these takeovers, rather than making optimal decisions on behalf of their owners, shareholders or even other stakeholders (usually employees).

There are three main management practices that have been used to protect themselves from a takeover:

1. Greenmail: Repurchasing stock from and unwanted shareholder at a higher price that the market price.

2. Poison Pill : Is a shareholder right to prevent hostile takeover. Usually, the current shareholders receive the right to buy a new stock if another organization gets a certain percentage of the company.

Golden Parachutes: The company agrees to pay money to the management team in a change in control of the company.
3.3. - Layer Two and Three Stakeholders

3.3.1. - The Consumer and Client as Stakeholder

The power of the consumer in any business is very important. In fact, the business has no sense without the existence of them. In this context, consumer satisfaction and more important consumer retention is a must for any profitable business.

In this chapter, the consumer behavior towards corporate social responsibility in Europe is presented as an example of the benefits that a company can accomplished having a social responsible behavior.

There are two main important issues regarding to social responsible consumer management. One is related with the information that the consumer is receives from the product, and it includes the publicity. The other is related with the quality of the product or service.
In the fall of the year 2000, CSR Europe hired the Market Opinion Research International (MORI) to interview 12,000 consumers across 12 European countries (Belgium, Denmark, France, Finland, Germany, Great Britain, Italy, Netherlands, Portugal, Spain, Sweden and Switzerland) on their attitudes towards the role of businesses in today's society. This was the first study devoted to social responsibility to be conducted across Europe.

The result showed a very important increase in social responsibility commitment of consumers. For example, 70% of European Consumers said that a company's commitment to social responsibility is important when buying a product or service, and 20% of them would be very willing to pay more for products that are socially and environmentally responsible.

The explanation given to the consumers interviewed about CSR was that companies have two kinds of responsibility - commercial responsibilities (that is running their business successfully) and social responsibilities (that is their role in society and the community). So this means that CSR involved all the activities beyond profit making that some companies do, like protecting the environment, looking after their employees, being ethical in their trading and being involved in the local community around which they operate.

This definition differed slightly in Spain to reflect 'Fundacion Empresa y Sociedad's previous work in its interpretation of Corporate Social Responsibility.
Findings of the European Survey

1. Business and Government Roles

The majority of European citizens believe that industry and commerce do not pay enough attention to their responsibilities. Special agreement with this proposition was found to be highest in Finland and Great Britain, with over 70%.

Caused by globalization, the boundaries of power and influence in society of both business and government are shifting, expanding and coming closer together. This is reflected in the public's view 'the responsibility for addressing social issues lies increasingly with large companies, as well as the government'. This view is held by two-thirds of European citizens, with greatest support in Switzerland, Spain and the Netherlands, where more than 80% of consumers agreed.

2. Where do companies' responsibilities lie?

Social responsibility is only one factor in the public's judgment of a company. Quality of products and customer service are high priorities. However, various aspects of responsibility feature prominently in the mix. Being open and honest, for instance, is the third most important factor behind quality and service - immediately followed by respect for human health and safety. The environment is a lower priority than we might expect five or ten years ago. Overall it is clear that a greater emphasis is placed on broader responsibility and openness.

What the European consumers care most about is, in terms of which areas are important for companies to support, the priorities are looking after employees and doing no wrong, and protecting the health and safety of workers. The latter is ranked most important in seven of the twelve European countries. Influenced by recent multinational scandal, the second ranked issue was respecting human rights throughout company operations and the chain of suppliers (for example not using child labor).
Another important point is that the consumer is expecting a general behavior of demonstration of corporate citizenship rather than just charitable or community giving.

3.- Modification of Buying Process

Buying a product based on a company's social performance is not a utopia any more.. A key question is 'does the consumer actually act in a socially responsible manner' in other words do their attitudes translate into 'real actions'?

The majority of the European public feel that a company's commitment to social responsibility is an important consideration when buying a product or service. This is particularly prominent in Spain (89% agree) and the Netherlands (81% agree).

In all of the twelve countries surveyed over half the population believe a company's commitment to social responsibility is an important factor when making a purchase. However the degree to which this is seen as very important varies significantly according to country.

4.- Willingness of the Consumer to Pay More

In seven of the twelve countries majority respond that they would be willing to pay more for socially and environmentally responsible products. This was particularly true in Denmark and with Italy in the other extreme (only one in six say that they would pay more). Of course, this does not mean that the consumers will actually pay more, as the divergence between surveys and real actions are usually huge.

5.- Social Responsible Activists

In terms of what the public actually do in this area, the results show that an encouraging population of people could be defined as 'Social Responsible Activists', although the picture varies considerably across Europe.
The survey defined SOCIAL RESPONSIBLE ACTIVIST as those consumers who have participated in five or more socially responsible activities in the previous twelve months. 28

In general (Europe as a whole) more than a quarter are activists although again, the differences between countries where large. For example, in Switzerland, Sweden and Belgium the proportion rises to more than 40%. In contrast only around the 10% could be classified in this way in Germany, France, Portugal and Italy.

The variety of activities across Europe was noticeable. The top ranking activities were recycling household waste, followed by giving money to good causes. Each has been done by more than half the public in the last twelve months. Around two in five have also bought a product or service because of its links with good causes, or a product labeled as social ethical or environmental. Similar proportions have bought organic food and given voluntary help to a good cause.

The enormous cultural influences in the European countries have a part to play in which activities are dominant in each country, but the overall picture is one of public involvement and, to varying degrees, proactive purchasing decisions. In addition, it is important to note that one in seven of the European public actively seek information on ethical activities.

6.- Social Responsibility Communication and Publicity

The European public strongly thinks that companies should communicate their social involvement. Their preferred way is including information on products and labels or any kind of communication through web sites, while other kinds of advertise (like posters) are not wanted. Again in this case, there are clear distinctions between countries.

Particular favor is expressed for proactive and voluntary communication by companies about their social activities, rather than compulsory environmental,
social and community reporting. Overall, the public is clear that activities should be
communicated and 'shared' and not simply through standard commercial-style
advertisements.

*Ethical Issues Regarding Consumer Stakeholders*

There is a typical subdivision in the ethical issues for consumer that is differentiating
the information that the company gives from its product or service and the quality of
the product itself.

From the point of view of the product information, there is a legitimate effort from
the companies to show all the benefits of its products to be able to sell it, but usually
companies incur in misinformation regarding the product’s specifications.
Although there can be a lot of different ways of lie to the customer through
information, the most common ways of doing it are:

1. Advertising: Advertising is a must in current society. The ethical advertise
should show clear, accurate and adequate information. Common ways of
attract customers unethically are using ambiguous advertising, use of
psychological appeals and human emotions to attract attention (like sex and
women). In most of the countries there figure of children is protected from
the advertising by regulation, specially in new media like internet. Alcoholic and Tobacco advertisement is also regulated in most of the
developed countries.

2. Labeling: Is usually regulated too, to avoid abuses in the information in the
labels of the products. This regulation is very strict in some industries,
specially with all that have to do with drugs.

3. Packaging: Big issue, not as regulated as the labeling.

4. Instructions and Specifications
5. Sales Techniques: There are very aggressive sales techniques. This case is particularly true with direct sellers.

6. Warranties

Another important issue regarding to the consumer as a stakeholder is the quality of the product or the service itself. It’s also important to mention that the quality of the product can also be the functionality of the post selling service. In 1987, David A. Garvin published in the Harvard Business Review the eight dimensions where quality can be evaluated:

1. **Performance**: Products primary operating characteristics
2. **Features**: Those characteristics that supplement the basic characteristics
3. **Reliability**: The probability of a product to fail in a given period of time
4. **Conformance**: The product meets established Standards
5. **Durability**: The amount of use you can get from the product before it deteriorates
6. **Serviceability**: The speed, ease and competence to repair
7. **Aesthetics**: How the product looks, sounds, tastes, etc. It’s very subjective.
8. **Perceived Quality**: Subjective understanding of the overall quality.

The performance of any company in quality issues can be analyzed buy the CUSTOMER SATISFACTION INDEX. Established in 1994, the American Customer Satisfaction Index (ACSI) is a uniform and independent measure of household consumption experience. A powerful economic indicator, the ACSI tracks trends in customer satisfaction and provides valuable benchmarking insights of the consumer economy for companies, industry trade associations, and government agencies. The ACSI is produced through a partnership of the University of Michigan Business School, the American Society for Quality (ASQ), and the international consulting firm, CFI Group.
The evolution of the customer satisfaction index in the US can be observed in the Exhibit:

Source: The American Customer Satisfaction Index

Figure 8: Evolution of the American Customer Satisfaction Index (Source: The American Customer Satisfaction Index) \(^3\)

Each Quarter, the ASCI publish the index for any different industry. As an example, the index for e-business companies are included in the table \(^3\)
<table>
<thead>
<tr>
<th></th>
<th>Q4 2000</th>
<th>Q4 2001</th>
<th>Q2 2002</th>
<th>Q2 2003</th>
<th>% Changes</th>
<th>% Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E-BUSINESS</strong></td>
<td>NM</td>
<td>NM</td>
<td>68.7</td>
<td>71.4</td>
<td>3.9%</td>
<td>3.9%</td>
</tr>
<tr>
<td><strong>Portals</strong></td>
<td>63</td>
<td>65</td>
<td>68</td>
<td>70</td>
<td>2.9%</td>
<td>11.1%</td>
</tr>
<tr>
<td><strong>All Others</strong></td>
<td>67</td>
<td>72</td>
<td>72</td>
<td>79</td>
<td>9.7%</td>
<td>17.9%</td>
</tr>
<tr>
<td><strong>Yahoo! Inc.</strong></td>
<td>74</td>
<td>73</td>
<td>76</td>
<td>78</td>
<td>2.6%</td>
<td>5.4%</td>
</tr>
<tr>
<td><strong>MSN (Microsoft Corporation)</strong></td>
<td>71</td>
<td>67</td>
<td>72</td>
<td>74</td>
<td>2.8%</td>
<td>4.2%</td>
</tr>
<tr>
<td><strong>America Online, Inc. (Time Warner Inc.)</strong></td>
<td>56</td>
<td>58</td>
<td>59</td>
<td>65</td>
<td>10.2%</td>
<td>16.1%</td>
</tr>
<tr>
<td><strong>Search Engines</strong></td>
<td>NM</td>
<td>NM</td>
<td>68</td>
<td>78</td>
<td>14.7%</td>
<td>14.7%</td>
</tr>
<tr>
<td><strong>Google, Inc.</strong></td>
<td>NM</td>
<td>NM</td>
<td>80</td>
<td>82</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>All Others</strong></td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
</tr>
<tr>
<td><strong>Ask Jeeves, Inc.</strong></td>
<td>NM</td>
<td>NM</td>
<td>62</td>
<td>69</td>
<td>11.3%</td>
<td>11.3%</td>
</tr>
<tr>
<td><strong>AltaVista Company</strong></td>
<td>NM</td>
<td>NM</td>
<td>61</td>
<td>63</td>
<td>3.3%</td>
<td>3.3%</td>
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<tr>
<td><strong>News &amp; Information</strong></td>
<td>NM</td>
<td>NM</td>
<td>73</td>
<td>74</td>
<td>1.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td><strong>All Others</strong></td>
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<td>NM</td>
<td>73</td>
<td>75</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>MSNBC.com (NBC, Microsoft Corporation)</strong></td>
<td>NM</td>
<td>NM</td>
<td>73</td>
<td>74</td>
<td>1.4%</td>
<td>1.4%</td>
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<tr>
<td><strong>ABCNEWS.com (The Walt Company)</strong></td>
<td>NM</td>
<td>NM</td>
<td>74</td>
<td>74</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td><strong>CNN.com (Time Warner Inc.)</strong></td>
<td>NM</td>
<td>NM</td>
<td>72</td>
<td>72</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td><strong>USATODAY.com (Gannett Co., Inc.)</strong></td>
<td>NM</td>
<td>NM</td>
<td>71</td>
<td>72</td>
<td>1.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td><strong>NYTimes.com (The New York Times Company)</strong></td>
<td>NM</td>
<td>NM</td>
<td>71</td>
<td>70</td>
<td>-1.4%</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>

Table 2: Example of The American Consumer Satisfaction Index for Media

54
Finally there are other issues related to the product that should be taken into account, the safety of the product (specially in the drugs and food) and the price strategy, especially avoiding price abuses from monopolies or trusts situations.
3.3.2. - The Government as a Stakeholder

Different Roles of Government and Businesses

It is necessary to draw a clear distinction between the role of companies and that of governments. In the last years, some expectations currently falling on business are in many cases neither realistic nor legitimate. The basic purpose of companies is to generate wealth. This job is crucial to economic and social development in any society. From the Corporate Social Responsibility point of view, the ways in which the wealth is created are at least as important as the wealth itself. Thus, companies take into account the environmental and social implications of their operations.

At the same time, the role of governments is to establish and maintain stable political and legal systems in which business and society can develop a social progress. So, it is government’s responsibility to invest in the education and social well-being of its citizens so as to be able to create the appropriate conditions for business growth and competitiveness.

Definition of the Government as a Stakeholder

The relationship between government and business has been one of the most disputed economic issues since Adam Smith and Keynes created the basis of the two different visions of the states roles in economics.

Usually, governments affect any industry by regulation or taxes. Businesses in general have never been fond of this intromission in establishing the rules. In the last 25 years, the governments in the developed countries and especially in the United States have been partly loosing power.
Government actions can be beneficial or prejudicial for business. For example, the high tech industry in Europe has been helped by means of tax cuts, or even subventions. On the other hand, governments use to penalize businesses to firms that are abusing their consumers. For example, the Clayton Antitrust Act against monopolies, preventing the elimination of competitors and the consequential abuse of customers.

As the developed societies became more and more complex, the government roles have also evolved to a very complex situation. The government can influence each business in one, some of all of the next points:\(^{38}\)

- Prescribes the rules of the game for business
- Is a large purchaser of products and services
- Has the contractor power to make the businesses do what it wants
- Promotes and subsidize businesses
- Owns equipment and wealth
- Government is the main source of economic growth
- Finance businesses
- Protector of social interests
- In some countries, government directly manage some businesses
- Is the responsible for redistributing the wealth produced by the companies

As the roles explained before are really critical for any business, it’s easy to understand why the tension between businesses and governments appears from time to time. The difficult comes from a individualistic approach of economics from the businesses (in ethics, in self interests, in personal freedom and emphasizing inequalities of individuals) versus the collective government beliefs, subordinating
individual goals and benefits to group goals and interests and emphasizing the equality of individuals within a group.

**Business and Government Connection**

Although there is a direct relationship between the business community and the government, there are other indirect iterations with the public community as the intermediary and with at least the same importance as the direct ones. These indirect iterations have a lot to do because of the democratic election of the government in the developed countries. Business can affect the public opinion and then affect the future government.

**Direct Relations between Business and Government**

Government influence businesses using taxes, subsidizing some companies or a special industry and finally and more commonly, by regulation. In some countries, the influence from government is so obvious that the management team is designated by it. This last situation has become less and less common, primarily because of the privatization of many companies all around the world.

The government is the largest investor and spender of the nation. Most of the governments have their own industrial policy, i.e. any selective government action or measure that promotes changes in the structure of an economy. Most of the industrial issues are related to international competition, to the high growth potential industries (like biotech, nanotech, etc) or to finance provision (for industries where the regular financing methods will fail). 39
Industry policy must change along the time. Failure in determining the correct industrial policy can turn the economy of a country down and made it difficult to recover. The perfect example of this situation is Japan, the main industrial leader during the eighties went (and it’s still there) to a deep economic crisis in the last 10 years!

Usually, governments from right or center-right advocate for a free market rather than for an Industrial policy. On the other hand, left or center-left governments take a proactive position to promote industrial policy (like for example Clinton did with the Internet). The September the eleventh terrorist attacks in the world trade center made the President Bush reconsider the free-markets traditional view of the republicans especially in those industries directly affected by the attacks (insurance, air line industry, etc).

Another trend that has been observed in the last years in both developed and developing economies is the privatization of public companies. Most of the times, the privatization is looking for the efficiencies found in the private sector and very difficult to find in the public sector. At the same time, there are some services provided by the government that cannot be safely or effectively provided by the private sector. An obvious example of this is the army!. An historical analysis of privatized companies suggest that on average, the efficiency of the privatized companies is higher than when they were public, but the results are not easy to generalize, as not all the privatizations in the world have been successful.

Governments are also a major employer and a major purchaser. These two things will definitely influence businesses as their markets depend a lot on them. Other roles that government that affect directly to businesses are:

- Subsidies
- Taxes
• Competitor for some business (State owned companies versus private ones)
• Loan Guaranteed
• Monetary policy maker
• Moral persuasion

But without a doubt, the most important way that government has to affect and influence businesses is by regulation. The regulation usually appears because of a market failure in a determined industry or even product. The government then, in order to solve the problem by means of a corrective action. These corrective actions can be classified into economic regulation (like for example the one made by the FCC, federal Communications Commission) or social regulation (like the civil rights act of 1964).

Usually, regulation tries to fight against the formation of trusts or monopolies, control and penalize negative externalities or achieving social goals, or avoid excess of profits or avoid excess of competition.

One of the arguments against regulation is its high costs.\textsuperscript{41} It’s very difficult to quantify the total cost of any regulation. First, of course, the commission or office expenses and salaries are a direct cost, but maybe the most important ones are that the innovation of the industry is affected by regulation, more costs for the businesses in new investments and equipment and finally, small and medium enterprises are very affected, as they usually do not have enough resources to fit into all the government regulations. These points is one of the most important reasons why, since 1980 there is a deregulation trend in traditional regulated industries like telecommunication, banking and transportation.

\textit{Direct Pressure of Business in Government}
Although the direct influence of business in government is a fact all around the world, it is accepted or rejected depending on the country. In the United States, the influence is not only accepted, but also part of the public process. Influenced by the individualistic culture, the North American political system is driven by the active participation of interests groups trying to achieve their own objective. Business political involvement is not only accepted, but necessary and healthy for a good political system in the US.

There are many ways how companies can influence the government.
Business Lobbying: The goal is to promote legislation in their interest and to defeat the legislation against their interest.
Coalition Influence: When different groups joint, at least temporally, for a common goal in the government.
Political Action Committees: Is the most important kind of lobbying and they are in the practice the principal instrument how the businesses used their financial resources to influence government and elections. A special case of PACs is the soft money. Soft money has no limit, as it’s supposed to be used to educate or register voters. The amount of soft money has increased exponentially in the last few years. In the last election in the US, Republicans and Democrats rose more than 200 million dollars.42

<table>
<thead>
<tr>
<th>Total for all 4207 Donors for Democrats</th>
<th>$210,591,059.14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor</td>
<td>$210,591,059.14</td>
</tr>
<tr>
<td>Saban Entertainment Inc</td>
<td>$9,252,936.36</td>
</tr>
<tr>
<td>Amer Federation of State County &amp; Municipal Employees</td>
<td>$7,483,500.00</td>
</tr>
<tr>
<td>Eychaner, Fred</td>
<td>$7,387,936.36</td>
</tr>
<tr>
<td>Bing, Stephen L</td>
<td>$7,075,936.36</td>
</tr>
<tr>
<td>Service Employees Int'l Union (SEIU)</td>
<td>$4,872,618</td>
</tr>
</tbody>
</table>

Table 3: Democrat Party Donors
<table>
<thead>
<tr>
<th>Donor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amer Financial Group</td>
<td>$3,378,108.00</td>
</tr>
<tr>
<td>Pharmaceutical Research &amp;</td>
<td>$3,249,087.00</td>
</tr>
<tr>
<td>Manufacturers of America</td>
<td></td>
</tr>
<tr>
<td>Texans for John Cornyn</td>
<td>$3,100,000.00</td>
</tr>
<tr>
<td>Philip Morris Cos Inc</td>
<td>$2,251,192.00</td>
</tr>
<tr>
<td>Service Employees Int Union</td>
<td></td>
</tr>
<tr>
<td>(SEIU)</td>
<td>$4,872,618</td>
</tr>
</tbody>
</table>

Table 4: Republican Party Donors
3.3.3 The Global and Local Communities Stakeholders

3.3.3.1 - The Local Community as a Stakeholder

The local community is the city, town or country where the business resides. With globalization, the sense of local community has been diffused. In a globally interrelated economy, businesses are affected for events happening in the other side of the world. The September the Eleventh terrorist’s attacks, the financial crisis in Asia, the chicken flu in Thailand, or even more recently the terrorists’ attacks in Madrid can affect not only the financial markets, but also the world stability and then the economy.

In the developed countries there is a common concern related with the movement of manufacturing plants to cheaper labor countries. This has been happening for a long time, but not as fast as nowadays. The ethical and moral responsibilities of leaving communities without jobs are a main public opinion discussion in the US and many other countries. This problem has been aggravated with the “Outsourcing to developing countries” of tasks and departments usually done in developed countries, like Information Technologies or any other kind of service. The outsourcing of IT services has killed 104,000 jobs in the US in the year 2003, a 3% of the total high technology jobs43
Passive Community Issues

Outsourcing, off shoring and plant closings

In many occasions, especially in communities where the wealth comes from a non sufficiently diversified source, a plant closing can have a terrible impact in the community. This problem has been accentuated in the last few years with the movement of European and American manufacturing plants to Asian countries, especially China.44

A similar situation is beginning to happen in the services industries in the developed countries. The fierce competence in prices and labor cost caused by the integration of developing countries in industries and areas usually led by developed countries (like Information Technologies, customer care, call centers, etc) have contributed to the loss of employment in developed countries, and its consequential social problem.

There are other important causes of plant closing. Declining industries, mergers and acquisitions, economic recessions, need to access to new markets, unmet corporate objectives, costly regulations, changes in corporate strategy, automation, inadequate capital investment and many more are other possible reasons to close plants.

The plant closing is a difficult task for any manager, but sometimes is impossible to fight against it. The ethical behavior should take into all the possible alternatives before closing the plant or outsource a service.
Local Community Issues for Businesses

Like personal commitment with community, companies can be generous with their communities and give time of the managers and employees or financial aid to activities in which they are involved.

Most of this business involvement in community can be enlightened by self interest. Companies will get a positive image, that will facilitates hiring process, gain prestige and greater acceptance that will translate in less opposition for it's legitimate demands and finally the business can center their community activities in those institutions that are essential to the continuation of their business.

There are three kinds of benefits from which a company can benefit from:

Indirect community benefits\(^4^5\)

1. *Creation of healthier community will attract better people*
2. *Improved corporate public image*
3. *Enhanced impact in monetary contributions*

Employee benefits

1. *Build teamwork skills*
2. *Improved morale*
3. *Attraction to better employees*

Bottom-line benefits

1. *Increase employee productivity*
2. *Impacts on company productivity\(^4^6\)*
3. *Easier to get the corporate goals.*
However, part of this business involvement have a moral or ethical interest rather than self-interest and it will not be fair to think in community involvement only as a self interests situation.
Philanthropy and Charity of Business

Philanthropy is defined in different ways. The origin of the word philanthropy is Greek and means care for for mankind. Today, philanthropy includes the concept of voluntary giving by an individual or group to promote the common good. Philanthropy also commonly refers to grants of money given by businesses or foundations to nonprofit organizations. Philanthropy addresses the contribution of an individual or group to other organizations that in turn work for the causes of poverty or social problems, improving the quality of life for all citizens. Philanthropic giving supports a variety of activities, including research, health, education, arts and culture, as well as alleviating poverty.

There are two kinds of donations that a company can give to the community. The most simple one is giving money or financial resources to any organization that develops a social activity. Although in the definition of philanthropy the use of altruist giving is mentioned, it’s very difficult to be sure of the true motives of the business giving. In countries like the US, the community philanthropy affects the buyers decision and facilitates the hiring process. But the motivations range from self interest to a pure desire to practice good corporate citizenship by supporting both traditional and innovative programs in the community.

Many authors define philanthropy as the way to give resources to the Nonprofit Organizations. These organizations develop an important role in our society and include churches, museums, universities and colleges, libraries, cultural organizations, etc. According to the quantity of money they receive, the classification of the non profit organizations will be:

1. Education: Most of it to colleges or Universities. A recent example is the Sam Wharton family (founder of Wal-Mart), that donated last year three hundred million dollars to the University of Arkansas. The controversy of these donations is if they are completely altruist or if they are looking for a pool of
well educated future employees or, what is worse, they want to affect in the education of the students by pressuring the universities and colleges.

2. Hospitals and Health Services
3. Community Activities
4. Cultural Activities: Including museums, arts donations, philharmonic orchestras, etc. This can be an inheritance from the old European business society, like the Italian Medici, the church, or any other.\(^{48}\)

The total amount of money and financial resources that companies spend in philanthropy activities varies a lot from year to year. As expected, during the years of the upper part of the economic cycle, the philanthropy activities grow and during recessions the fund raiser diminishes. For example, during the year 2002, charitable donations to health services diminish in 31 \%.\(^{49}\) It also depends in the level of commoditization of the industry, as fierce business competition usually affect negatively to the philanthropic donations. As a curious example of self interest of philanthropic donations, in many corporations they have been moved to the marketing budget.

Finally, as a new trend in community philanthropy, the implement of so-called community-based venture philanthropy, in which he gives seed money to smaller charities with business plans that meet benchmarks.\(^{50}\)
3.3.3.2.- Global Community as a Stakeholder

Global *philanthropy*

Multinationals dominate the world stage, and their reach is growing. For example, ten years ago, almost none of Wal-Mart's sales came from outside the United States; today, that figure is 14%.

Other examples, like GE or Procter and Gamble’s foreign sales represent 33% and 50 % respectively. A lot of companies in industries ranging from shoes to software have registered similarly impressive numbers in increases in foreign sales. At the same time, manufacturing overseas or outsourcing the production or many process abroad had increase the margins and then the profits of many multinationals. These increases have not been matched by proportionate increases in overseas *philanthropy*. For example, few U.S. multinationals allocate more than 10% of their giving to recipients outside the United States.\(^{51}\)

This situation is not only unfair for the other countries, but this is not the only reason why the situation should change. As explained previously, most of the philanthropy made by corporations has self-interest, especially related to marketing and brand issues. The development of foreign brands and the devaluation of the current ones if not sufficiently donations are made can hurt the sales in those countries. The current differences in global political issues between America and Europe have aggravated the situation of American brands in Europe and European brands in the US. Global companies should be able to attract and retain customers, employees and investors all around the world.

Part of this problem is caused because of their traditional expenses, but also because the ignorance about how to implement philanthropy activities in other cultures. However, the trend seems to be changing. For example, IBM can be considered as the world leader in global strategic *philanthropy* and a company with
half its sales outside the United States. Each year, IBM allocates more than 30% of its corporate giving to non-U.S. recipients. (Its contributions in 2002 exceeded $127 million.) 51 Under Lou Gerstner, IBM strategically focused its philanthropy on technology education programs that now reach ten million children and 65,000 teachers worldwide. The programs build local goodwill but also help IBM learn how consumers in different cultures, especially those from lower socioeconomic strata, interact with computers. The training of local teachers also accelerates technology development in poor countries, helping to open up markets.

This new trend is, however, finding difficulties, primarily the fact that it's very difficult to administer charitable activities in undeveloped countries and, from the management point of view, calculating the impact or the return of the resources invested in those programs is extremely hard.

<table>
<thead>
<tr>
<th>Name</th>
<th>Background</th>
<th>1998-2003 Given or Pledged (MUS$)</th>
<th>Causes</th>
<th>Lifetime Gifts (MUS$)</th>
<th>Total Wealth (MUS$)</th>
<th>% Donated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bill and Melinda Gates</td>
<td>Microsoft co-founder</td>
<td>22,906</td>
<td>Health, education</td>
<td>24,976</td>
<td>46,000</td>
<td>54%</td>
</tr>
<tr>
<td>2 Gordon and Betty Moore</td>
<td>Intel co-founder</td>
<td>7,010</td>
<td>Conservation, education</td>
<td>7,200</td>
<td>5,000</td>
<td>144%</td>
</tr>
<tr>
<td>3 George Soros</td>
<td>Investor</td>
<td>2,431</td>
<td>Open and free societies</td>
<td>4,741</td>
<td>7,000</td>
<td>68%</td>
</tr>
<tr>
<td>4 Eli and Edythe Broad</td>
<td>SunAmerica founder</td>
<td>1,459</td>
<td>Public education, arts, science</td>
<td>1,500</td>
<td>3,800</td>
<td>39%</td>
</tr>
<tr>
<td>5 James and Virginia Slowers</td>
<td>American Century founder</td>
<td>1,345</td>
<td>Biomedical research</td>
<td>1,559</td>
<td>575</td>
<td>271%</td>
</tr>
<tr>
<td>6 Michael and Susan Dell</td>
<td>Dell founder</td>
<td>1,215</td>
<td>Children's health care</td>
<td>1,230</td>
<td>13,000</td>
<td>9%</td>
</tr>
<tr>
<td>7 The Walton Family</td>
<td>Family of Wal-Mart founder</td>
<td>750</td>
<td>Education</td>
<td>1,000</td>
<td>108,400</td>
<td>1%</td>
</tr>
<tr>
<td>8 Ted Turner</td>
<td>CNN founder</td>
<td>664</td>
<td>Health, environment</td>
<td>1,300</td>
<td>2,100</td>
<td>57%</td>
</tr>
<tr>
<td>9 Ruth Lilly</td>
<td>Eli Lilly heiress</td>
<td>568</td>
<td>Poetry, libraries, culture</td>
<td>740</td>
<td>1,000</td>
<td>74%</td>
</tr>
<tr>
<td>10 Donald Bren</td>
<td>Real estate</td>
<td>412</td>
<td>Education, environment</td>
<td>412</td>
<td>4,000</td>
<td>10%</td>
</tr>
<tr>
<td>11 Michael Bloomberg</td>
<td>Bloomberg founder, NYC mayor</td>
<td>401</td>
<td>Education, health care, arts</td>
<td>401</td>
<td>4,900</td>
<td>8%</td>
</tr>
<tr>
<td>12 H.F. (Gerry) and Marguerite Lenfest</td>
<td>Former suburban mayor</td>
<td>375</td>
<td>Higher education, arts</td>
<td>385</td>
<td>825</td>
<td>47%</td>
</tr>
<tr>
<td>13 Patrick and Lore McGovern</td>
<td>IDG founder</td>
<td>351</td>
<td>Brain research</td>
<td>371</td>
<td>2,000</td>
<td>19%</td>
</tr>
<tr>
<td>14 Jeffrey Sklar</td>
<td>Ex-president of eBay</td>
<td>347</td>
<td>Social services</td>
<td>357</td>
<td>2,300</td>
<td>16%</td>
</tr>
<tr>
<td>15 Sidney Kimmel</td>
<td>Jones Apparel chairman</td>
<td>340</td>
<td>Health care, arts</td>
<td>472</td>
<td>700</td>
<td>67%</td>
</tr>
</tbody>
</table>

Table 5: Top Donors of the USA (Source: Business Week 12/1/2003)
3.3.4- The Natural Environment Stakeholder

The number of possible issues that a company has to face in order to behave responsible from the natural environment point of view is huge and varies a lot from industry to industry. Taking care of the natural environment is not only necessary to maintain the sustainability of the business and society, but also a social and moral concern because of the world we are giving to our future generations.

We can see any business as a black box, with inputs coming from the society (human resources) and the natural environment (natural resources) and outputs like the products or services and others (Figure 7)

![Business Production Process Diagram](image)

Figure 9 : Basic Business Production Process
In that exhibit, the others represent undesirable outputs inherent to most production processes. Many of these undesirable outputs will affect the natural environment in many different ways (pollution, waste, resource degradation, etc).

As for global community and local community stakeholders, a company can affect both the local natural environment and the global natural environment. The issues related to this stakeholder will have the same classification.
Natural Environment Issues

The increase of environmentalism in the current society is fact related with the global public perception of environmental problems. Part of this perception is because of the awareness made by the environmental movements and the environmental interests groups like Greenpeace. These Non Profit Organizations were usually founded in the sixties or seventies and have been growing in supporters and importance since then. The two most important ones are Greenpeace and WWF (World Wildlife Fund). This awareness of green issues has affected many businesses, especially with the growth of green consumers, employees and investors.

Climate Change and Greenhouse Gas Emissions

Although climate change has happened throughout the earth’s history, the speed in which we are immersed now and the causes of it (primarily because of human activities) are new. Climate change is a highly complex problem, which has the potential to impact negatively on every sphere of life. At the same time, and mainly because of economic interests, the interchanges between the earth’s climate and human induced greenhouse gas emissions do not constitute a generalize area of study.

Addressing climate change will include dealing with deeply sensitive scientific, political and economic concepts and perceptions. Unfortunately, in the last few years we have begun to suffer extreme weather exceptional fats, like the Niño, la Niña, extreme droughts and floods (like the German one last year). These recent facts are accelerating the global conscience of responding to the weather change. Climate change and its devastating effects thus need continued urgent attention, carefully backed up by a broad understanding of what the mechanisms for addressing it entail, by political will and scientific findings.
In this context, The United Nations Framework Convention on Climate Change was created in 1994. The Kyoto Protocol, which sets out more specific, binding commitments, followed in 1997. Fortunately, the Convention enjoys near universal membership – testimony to the political will that governments of the world show for tackling climate change. The Convention is being implemented through an intergovernmental process, in other words, it is a platform on which countries can join forces to stabilize the global climate.

In the last 11 years since the Convention’s was created, negotiations, especially on the Kyoto Protocol, were held in a variety of locations around the globe, from Buenos Aires to Marrakech.

The rules are then already established, businesses and people have now to take care of the implementation, which will be a difficult task.

The most important climate issue for companies is the greenhouse gas emissions. The greenhouse effect makes the solar heat to be absorbed by the atmosphere instead of returning it to space. The main cause of the greenhouse effect is the burning of fossil fuels (oil and coal), but others like the deforestation (that converts CO2 into oxygen during the photosynthesis) is a big problem too. Both of them are very related to businesses activities, and especially affect to energy and automobile companies. The reduction of greenhouse gasses emission will definitely affect the results of many companies, especially in developed countries. These countries have committed to decrease their gas emissions to the levels of 1990 by the year 2010 (Kyoto Protocol\textsuperscript{53})\textsuperscript{54}
<table>
<thead>
<tr>
<th>Country</th>
<th>1990 baseline emissions, millions of metric tons of CO₂</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>303</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>207</td>
</tr>
<tr>
<td>Italy</td>
<td>137</td>
</tr>
<tr>
<td>Spain</td>
<td>64</td>
</tr>
<tr>
<td>Netherlands</td>
<td>45</td>
</tr>
<tr>
<td>France</td>
<td>39</td>
</tr>
<tr>
<td>Greece</td>
<td>28</td>
</tr>
<tr>
<td>Denmark</td>
<td>21</td>
</tr>
<tr>
<td>Belgium</td>
<td>20</td>
</tr>
<tr>
<td>Finland</td>
<td>20</td>
</tr>
<tr>
<td>Portugal</td>
<td>18</td>
</tr>
<tr>
<td>Austria</td>
<td>12</td>
</tr>
<tr>
<td>Ireland</td>
<td>10</td>
</tr>
<tr>
<td>Sweden</td>
<td>3</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1</td>
</tr>
</tbody>
</table>

*As agreed upon in the EU burden-sharing agreement of 1998. Source: European Environment Agency (EEA), McKinsey analysis*

Figure 10: Change in Emissions Levels and Future Commitment (Source: McKinsey Quarterly)*55*
### Emissions of Annex I Parties (1990)

Annex I Party carbon dioxide emissions in 1990 and their share of the total for the purpose of determining entry into force of the Kyoto Protocol

<table>
<thead>
<tr>
<th>Party</th>
<th>1990 CO₂ emissions (Gg)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>288,966</td>
<td>2.1</td>
</tr>
<tr>
<td>Austria</td>
<td>58,200</td>
<td>0.4</td>
</tr>
<tr>
<td>Belgium</td>
<td>113,405</td>
<td>0.8</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>82,990</td>
<td>0.6</td>
</tr>
<tr>
<td>Canada</td>
<td>457,441</td>
<td>3.3</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>169,514</td>
<td>1.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>52,100</td>
<td>0.4</td>
</tr>
<tr>
<td>Estonia</td>
<td>37,797</td>
<td>0.3</td>
</tr>
<tr>
<td>Finland</td>
<td>53,900</td>
<td>0.4</td>
</tr>
<tr>
<td>France</td>
<td>366,536</td>
<td>2.7</td>
</tr>
<tr>
<td>Germany</td>
<td>1,012,443</td>
<td>7.4</td>
</tr>
<tr>
<td>Greece</td>
<td>82,100</td>
<td>0.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>71,673</td>
<td>0.5</td>
</tr>
<tr>
<td>Iceland</td>
<td>2,172</td>
<td>0.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>30,719</td>
<td>0.2</td>
</tr>
<tr>
<td>Italy</td>
<td>426,941</td>
<td>3.1</td>
</tr>
<tr>
<td>Japan</td>
<td>1,173,360</td>
<td>8.5</td>
</tr>
<tr>
<td>Latvia</td>
<td>22,976</td>
<td>0.2</td>
</tr>
<tr>
<td>Liechtenstein</td>
<td>268</td>
<td>0.0</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>51,143</td>
<td>0.1</td>
</tr>
<tr>
<td>Monaco</td>
<td>71</td>
<td>0.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>167,600</td>
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</tr>
<tr>
<td>New Zealand</td>
<td>29,530</td>
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<td>Norway</td>
<td>35,533</td>
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<tr>
<td>Poland</td>
<td>414,930</td>
<td>3.0</td>
</tr>
<tr>
<td>Portugal</td>
<td>42,148</td>
<td>0.3</td>
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<tr>
<td>Romania</td>
<td>171,103</td>
<td>1.2</td>
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<tr>
<td>Russian Federation</td>
<td>2,388,720</td>
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<tr>
<td>Slovakia</td>
<td>58,218</td>
<td>0.4</td>
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<tr>
<td>Spain</td>
<td>260,654</td>
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<tr>
<td>Sweden</td>
<td>61,256</td>
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<tr>
<td>Switzerland</td>
<td>43,650</td>
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<tr>
<td>United Kingdom</td>
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<td>4.3</td>
</tr>
<tr>
<td>USA</td>
<td>4,957,022</td>
<td>36.1</td>
</tr>
</tbody>
</table>

*15 European Community member states combined

The table does not include Annex I Parties that had not yet submitted a national communication under the Convention when the Protocol was adopted. The emissions of these Parties will not be counted towards the entry into force threshold. Figures exclude the land-use change and forestry sector.

Table 6: Carbon Dioxide Emissions in 1990 (Source: The United Nations Climate Change Convention and the Kyoto Protocol*34)
**Water Pollution**

The solid wastes deposits have a tremendous impact in the water pollution, especially in underground aquifers. Also the use of pesticides, the deforestation, and the increase of chemicals in crop land affect the quality of the water in rivers and in oceans.

Another problem with water pollution is that the clean water is not equally distributed, with a negative correlation with the human density of population. The United Nations argue that in 2025, 66% of the world population will be living in countries with water stress conditions.

**Solid Wastes**

The increase of solid wastes in the developed and developing countries is incredible. This increase is, in part, caused by the growth of population in the world, but also because of the growth of the waste per capita ratio. The fast development of China is also affecting the global production of wastes.

The good news is that at the same time as the solid waste increases, in developed countries the amount of recycled materials and wastes also grows very quickly not only because of the more material they collect, but also because of the new techniques and technology and improving the efficiency of recycling.56

**Air Pollution**

Air pollution affects directly to human and other animal health. This problem is more important in developing countries, especially in big cities. Air pollution also causes
the acid rain, an important issue in the past in Europe and the US affecting Asia now more than those nations. Finally, indoor air pollution specially that caused by tobacco, pesticide and other artificial components for cleaning can cause cancer and are a major concern in most of the developed countries.57

Energy Use

The efficiency of the energy resources is an ethical value for businesses and people in the beginning of the 21st century. It’s not only that you can afford the energy; it’s also realizing the importance of the natural resources and the externalities that the consumption of the resource has and act accordingly to the situation.

Land Degradation

Productive and nutrient rich soil is blown away by weather conditions like wind or rain when it’s unprotected. The main causes of it are deforestation, acid rain and ozone depletion. While this is happening, the population of the world grows and grows, making this problem a huge problem for the future.
Ruin of Marine Environments

The degradation is caused by contamination by human activities in the coast, and the leaking of hazardous wastes in the coasts and rivers that ended in the oceans. An especial point of interest is the transportation of oil by boat. The ecological disaster of the Exxon Valdez, followed by many other cases, including the recent Prestige in Galicia(northwest of Spain) are only some examples of the impressive consequences of humankind in the pollution of oceans.

Finally, and very important from the point of view of social and human development, the declining fish and seafood population with the obvious economic and social consequences, especially in undeveloped countries where fishery is the most important source of proteins in their nutrition.

Genetic Engineering Species and Biological Diversity
The development of genetic engineering and the ability to create new species and crops that can compete with the pure natural ones is a major concern for most of the “green” and environmental interest groups. Although the possibilities of these new species, with special and artificial characteristics to be able to grow in extreme situations, are huge, the risks for the environment balance are also enormous.

The human activity in the natural environment has increased the rate of disappearance of wild species. At the same time, it has benefited other species that have extended their habitat to fill the wholes, resulting in a unbalanced ecosystem.

Deforestation

Deforestation is important because it’s the cause of many different environmental problems in the world:

- Greenhouse effect: The reduction in number of trees decreases the dioxide of carbon that is converted back to oxygen and water by photosynthesis.
- Land degradation: Causes soil erosion and the lost of important layer of soil for crops.
- Pollution of Water: The soil erosion goes directly to rivers or oceans
- Increases the risk of flooding
- Increases air pollution, as the air is not filtered by the leaves of the trees
- Decreases habitats for many animals, especially in tropical forests
Chapter 4

CONCLUSIONS

The purpose of this thesis is to show the reader a broad view of the most common Corporate Social Responsibility issues, and not to be a detailed view of them. The framework explained in chapter 3, does not try to be a complete examination of all possible CSR problems that a company can face, as the term CSR is too extensive to be explained in a thesis.

One of the main remarks of this thesis is that a responsible behavior of firms is not only necessary because of ethical reasons, but also because the long term economic results are positive, converting CSR in a critical issue for long term success. As examples of unethical behavior in Parmalat, Enron or even Arthur Andersen made these companies disappear, even if they were old and with a long trajectory of success.

The problem of CSR is not new, but it has grown in importance in the last few years. We can find many causes of these new concerns about the activities of firms. First, the more educated the society is, the more the people demand responsible conduct. Second, the awareness of the “bad” activities because of the media usually causes an important decrease in sales of the firms. Third, the accountability scandals of large companies both in Europe and the US have awakened the government regulations in accounting. Finally, a general increase in importance of corporate social responsibility in most of the business schools has created a reinforcing loop for responsible management.

This thesis also defines the main stakeholders and the main issues that a manager of a corporation should take care for each of them. The stakeholders can be internal
(shareholders, employees, partners, etc) or externals (government, local communities, etc). They can also be social (including people) or non-social (like for example, the natural environment). Another possible classification of stakeholders is with the degree of involvement of stakeholders in the activities of the company. In this case, we can find supportive and non-supportive stakeholders. Finally, the stakeholders can also be a threat for the activities of the firm and they should be managed to avoid any possible conflict.

The framework explained in chapter three, and summarized in page 33 is a general analysis of the stakeholders, their relationships and the problems that a misconduct firm can cause. It can be used as a tool for a structured analysis of any corporation, although some of the issues will not be applicable to all the companies.

The framework is a general tool, and it does not tend to The framework is a tool that must be developed for any company or firm that it’s used, as it can be affected by the cultural and economical environment. For example, the country, the industry, the employees, the regulation and many other will affect definitely the framework.

Finally, the framework is not a finished tool and new issues will have to be added with time. If the framework had been developed fifteen years ago, it will never have included issues like electronic privacy. This new issues will continue to happen in the future, and they will need to be added to the framework.
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