

## Module 6. Understanding Stakeholders and Non-Governmental Organizations

### Module 6a Stakeholders: Outline

#### A. “Stakeholder Theory” as a Framework for Discussing Corporate Social Responsibility Is Introduced in the 1980s

1. Stakeholder theory challenges the traditional view of the firm: shareholders/stockholders are the owners of the company,
2. Stakeholder Theory argues that there are other parties involved with a legitimate “stake” in business decisions, including
  - 🌱 Communities and their governmental bodies
  - 🌱 NGOs and other community groups
  - 🌱 Employees and unions
  - 🌱 suppliers and customers.

#### B. Stakeholder Identity, Power and Legitimacy

- 🏃 In general, who are the new stakeholders making claims on the business enterprise?
- 🏃 What are their “missions”?
- 🏃 What is the source of their legitimacy?
- 🏃 What are their goals in a particular domain that affects our business?
- 🏃 What is the source, “location” and legitimacy of their power in a particular situation?
- 🏃 How likely are they to use their power in a given situation—will they “play” and devote their scarce resources to this situation?

### Module 4b. Social Movements and Non-Governmental Organizations (NGOs): Outline

#### A. The Rise of Social Movements as Property Rights Advocates

#### B. Non-governmental Organizations (NGOs) formation and rationale:

1. to advance some political objective, such as world peace
2. to advance the interests of one of the above groups to the particular right or bundle of rights noted above
3. to protect the rights of groups who cannot act to protect their on rights

#### C. Social Movements Come and Go

- 🏃 1. NGOs have difficulty sustaining momentum with
  - a. volunteers
  - b. financial sources
  - c. media attention
- 🏃 2. NGOs have had their greatest success in drawing attention to issues
  - a. In the popular media

- b. In opinion-forming media
- c. In “think tanks” research and
- d. In intellectual opinion
- e. In legislative bodies

D. BUT...NGO's momentum in the public policy process wanes as decision-making moves into the bureaucratic processes of the administrative and regulatory arenas of government where the power of business lobbying is far greater.

## Module 6a Stakeholders: Text

### Stakeholder Theory as Introduced in the 1980

Stakeholder Theory challenges the traditional view of the firm: shareholders/stockholders are the owners of the company, and the firm has a binding fiduciary duty to put their needs first, increasing value for them in the form of share value or dividends. Stakeholder Theory challenges the historical US legal definition of the corporation and views it more like an enterprise in European socialism. Stakeholder Theory argues that there are other parties involved with a legitimate “stake” in business decisions, including

- 🟢 Communities and their governmental bodies
- 🟢 NGOs and other community groups
- 🟢 Employees and unions
- 🟢 suppliers and customers.

### Stakeholder Identity, Power and Legitimacy

The new stakeholders making claims on the business enterprise vary considerably in their “mission,” legitimacy and power. When these stakeholders present themselves to the business community generally and to an individual corporation in a particular business situation, it is not uncommon, nor unreasonable, for business top pose such questions as:

Why are you here, i.e., what is your “mission” and how does it relate to our situation?

If you are asserting your right to represent the interests of a particular group, what is the source of your legitimacy to do so?

What are your goals in a particular domain that affects our business?

What is the source and “location” of your power in our particular situation?

Do you intend to use that power in this situation—will you devote your scarce resources to attempt to achieve your goals?

### The “Old” Stakeholders

It is possible to argue that in addition to shareholders, certain stakeholders have an historic claim for “consideration” by the enterprise. These “old” stakeholders would be customers, employees, and lenders. However, these are often largely dispersed groups, and unable to effectively represent their interests to corporate decision makers. The exception is where they are formally organized, e.g., unions, or hold a dominant position in the marketplace, e.g., large customers, suppliers, investors, or lenders. For these older stakeholders, their legitimacy is not in question, as it is rooted in their economic contracts with the firm. Further, the firm is able to judge their power and goals in a particular situation.

### The “New” Stakeholders, Emerging in the 1980s

The “new” stakeholders that emerged in the business environment in the 1980s are of two kinds. First are those who legitimacy in terms of the interests they claimed to

represent are not in questions, e.g., elected governments and government agencies at all levels with defined responsibilities to protect the public interest, or some community groups that represented a clear majority of the community members for whom they wished to speak, e.g., the immediate neighbors of a polluting manufacturing facility. For these new stakeholders, business can relatively easily comprehend their legitimacy and in some clear measure accept their power and influence.

The second type of “new” stakeholder represented a different challenge for the business enterprise, as they are largely “self-designated” as representatives or “spokespersons” of the “protected groups” whose interests they seek to define and therefore represent. These new stakeholders are primarily organized in the form of non-governmental organizations (NGOs). These NGOs derived their legitimacy and influence from a recognition by important “legitimacy signifiers” that they were credible advocates for these protected groups, with the groups’ values and interests central to their advocacy and actions. These “signifiers” would include

1. the media, who implicitly legitimize the NGOs by giving them access to their audiences through interviews, op-ed space in print publications, and reference to their positions, pronouncements, and actions in regular reporting of news, and
2. governmental bodies, who invite NGOs to represent the “protected groups” at legislative and administrative hearings and in judicial processes where they are heard as “interested parties”
3. individual opinion leaders, including politicians, who quote NGO positions and reference NGO-generated studies and data in a variety of public venues.

Because of their conferred legitimacy and considerable influence, dealing with NGOs is one of the most formidable challenges facing the business manager in the US and increasingly so in foreign countries.

## **Module 6b. Social Movements and NGOs: Text**

### The Rise of Social Movements as Property Rights Advocates

Social movements arise when there is a “fissure” or tear in the social fabric that has become so large that interested citizens take it upon themselves to try to take action to ease the social problems that “fissure” has created. “Social movement entrepreneurs” form small organizations which we call “social movement organizations,” private voluntary organizations,” or, the term we use in this course, “Non-governmental organizations (NGOs). These NGOs endeavor to build themselves into larger organizations utilizing the resources available to them—volunteer labor, finances (variously from the support of members, large donors, or foundations), media coverage, political candidates, and, the Holy Grail of NGOs—“legitimacy,” as informally conveyed and defined by the media and governmental entities.

### The Early Experience of Business Dealings with NGOs

In the early stages of the challenge from NGOs, US business managers and firms generally stumbled in the effort. At the outset, managers failed to correctly assess the potential power of NGOs, in part because

- as individuals, they had not had to deal with NGOs before
- they accorded no legitimacy to NGOs
- they found it impossible to believe that the national media, intellectual media, political institutions and the public at large would give credibility to the rag-tag and often youthful band of environmentalists, consumerists and anti-war activists that made up NGO membership and leadership.

As a result, U.S. business managers usually opted to ignore them with disastrous results. When US business did choose to confront NGOs, managers ordinarily proved unable to understand the NGO agendas or their mode of operation. And in many instances, they plainly did not like the NGO leadership, often labeling them as "radicals," "socialists," or similar terms implying they were hostile to the American (business) system. In the few instances where business did try to work with NGOs, the efforts usually ended in failure.

Whatever the range of early experience with NGOs, few business managers today believe their firms will ever again be able to live in a world where NGOs are not a significant part of their external environment. NGOs are here to stay, whatever the economic or social conditions of our society. In most Asian countries, thanks to cultural traditions and authoritarian governments, NGOs are not as significant or powerful as in the US and Western Europe. But they are present, often as a small local group formed around a single issue, or affiliates of large multinational NGOs.

### The Arenas of Confrontation

In both the domestic and global environments, business must confront NGOs in a variety of arenas, including: (1) directly, on a face-to-face basis; (2) in the electoral process, when NGOs are on the opposite side of support for candidates and referenda issues; (3) in the legislative and administrative processes, where NGO lobbyists work the same decision

makers as business lobbyists; (4) in the judicial and regulatory hearing process, where NGOs bring actions against companies and appear as expert witnesses; and (5) in the media, where business and NGOs compete to capture media attention, focus, and legitimacy.

#### Direct Confrontation

Business often has no choice but to deal with NGOs directly. Local environmental groups, minority interest groups and the like can show up at the corporate headquarters, plant sites, retail outlets and annual meetings bearing demands for changes in corporate policy and practices. In so doing, NGO members have shown themselves willing to break trespassing laws, and risk personal injury and reputations to make their statement against business.

In direct actions toward business, NGOs usually present themselves with placards, petitions, and other means of declaring their grievances against the firm, often as much for the benefit of the media as for the edification of the firm. Direct action strategy has frequently included the demand for an audience with responsible corporate executives to discuss what NGO members believe are the misguided or misdirected policies or actions of the firm.

Sometimes, direct actions against business have been dramatic. The Montgomery, Alabama bus boycott, by black Americans in the mid-1960s, is an example. In Asian, such direct actions usually are directed toward the government, as with the case of the student riots in Korea.

#### NGOs and the Media

NGOs have proven themselves adept at using their scarce resources for maximum impact on private and public policy. (Witness the recent award of the Nobel Peace Prize to a woman in Vermont coordinating the global movement against land mines from her home via the Internet and email.) They rely heavily on the media to promote their causes and give them legitimacy by staging for the media newsworthy demonstrations and other events. They have also formed effective coalitions with politicians.

Capturing media attention is thus a major NGO goal. NGO spokespersons and "actions" have become a major feature of talk shows and news programs. Together, these efforts are designed to influence not only readers and viewers, but also the key editorial staff of the various media and governmental organizations. Media coverage gives the NGO publicity, recruits new members, and accords the organization and its cause legitimacy.

#### NGO Agenda and Timing

NGOs are ordinarily very careful about choosing the battlegrounds where they challenge against business. Because they have limited sources and their power is dependent on the arena and involvement of other actors, NGOs will ordinarily not spread themselves too thin, preferring to concentrate their efforts where the potential impact and returns are greatest.

NGOs have also proven enormously effective in using time as a weapon. Delaying tactics have proven particularly potent, and the inventory of corporate projects that have fallen victim to effective delaying tactics in the courts and regulatory bodies where permits are required grows annually.

## Business Strategy for Dealing with NGOs

The most effective business strategy for dealing with NGOs begins with avoiding strategic surprise. This is most easily accomplished by means of a careful monitoring of cultural and social change, emerging social movements, and on-going NGO activities. Many firms accomplish this by simply maintaining subscription to NGO publications and, wherever possible, direct interaction with NGO leadership.

The latter strategy--interaction with NGOs--is not always an option, since many NGOs (1) believe business cannot be trusted; (2) do not want to reveal their plans; (3) believe their power is weakest in direct negotiations with business; and (4) fear of losing their credibility with other NGOs if they "break bread with the enemy." Nevertheless, if it can be achieved the value of face-to-face contact with NGO leaders is considerable.

The scorecard on business efforts to deal with NGOs since the late 1960s was abysmal to start, but has improved in recent years as managers have learned more about NGO agendas, strategies and tactics, and accepted that they are inevitable factors in the business environment.

## Having One's "Ducks in a Row"

Many businesses in the past have underestimated the professional technical knowledge of NGOs. Those movements which have strong support in the middle and upper middle classes--e.g., the environmental, consumerism, and animal rights movements--have been able to marshal highly knowledgeable professional personnel to staff the NGOs and serve in various voluntary capacities as expert witnesses and lobbyists in the public policy process.

Faced with formidable adversaries, business managers have found it essential to have "all their ducks in a row," viz., to have a strong, thoroughly researched and, supportable position. The days when a business could present a poorly presented argument and carry the day, if they ever existed, are surely past today. If nothing else, NGOs have forced business to confront their plans and actions in detail before presenting them publicly. This has had the advantage of leading business away from policies and actions which could not stand the test of scrutiny to which NGOs are certain to put them.

In certain rare instances, business has been able to play an important role in countermovements which develop in opposition to specific or general social movements. In recent years a large number of countermovements have developed in the U.S., e.g., in opposition to abortion and affirmative action.

## The Life Cycle of Social Movements

Social movements and NGOs can be described as having a life-cycle similar to the life-cycle of living organisms, or, in business experience, products. In the early stages of growth, social movements and NGOs are often brought into being by leaders who are agitators, and led by other leaders who have charismatic qualities. As they mature, social movements and NGOs become more bureaucratic and conservative, and their leadership needs shift to skills possessed by administrators and statesmen.



### **Entry-level Employee Perspective**

Many NGOs are staffed by young people, often current college students or recent college graduates. As an entry-level employee, you could be asked by your supervisor or a senior manager in your company to explain the goals, perspective and strategy of an NGO that is criticizing your company. Could you do this if the NGO were:

- a. an NGO focused on environmental quality issues?
- b. an NGO focused on worker rights issues?
- c. an NGO focused on consumer rights issues?