Chapter–2: Stakeholder Concept for Management

□ “If the misery of our poor be caused not by the laws of nature, but by our institutions, great is our sin.”
   (Charles Darwin)

□ “Science and technology tell us what we can do, ethics what we must. A new water ethic is our surest path to prosperity, to just and long lasting peace.”
   (Elizabeth Dowdeswell).

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This chapter provides the backdrop to the application of the concept of ‘stakeholder management’ in public domain on the premises that water resource projects (in public domain) are increasingly being governed by the company form of organizations. Since the concept is derived from mainstream economics and most of the research work on it pertains to business world, the chapter attempts to draw an analogy between development of business and water resources, after understanding the issues of human values and enterprise conflicts through an investigation into the history of business development. The chapter then traces the path of progression followed by the evolutionary stakeholder concept, moving from concepts of social responsibility, to social responsiveness, to business ethics, and eventually to its present form. Finally, the chapter looks into present-day corporate concept of stakeholder management covering such aspects of ‘stakeholders’ as: its definition; its role as business environment; corporate accountability to it; significance of its relationship; and measurement of its relationship value.

1 PROLOGUE

Although, water resource projects have significant social, cultural, and ecological ramifications, they are arguably conceived and executed for economic development. The agricultural growth and often growth of power sector, followed by growth of industries, commerce, fisheries, tourism, etc. are the indicators of such economic developments. In India, water resource projects are sometimes reckoned as falling in the domain of social economics; and the social economics relates with the belief that either the proletariat (Marx) or the government (Keynes) can take control of, or manage the economy more
effectively. Since the stakeholder concept has been largely a management tool of mainstream economics rather than social economics, its application in water resource development may sound somewhat anomalous.

It is true that water resource projects in India have so far remained in public domain; and understandably many of the ailments (e.g. cost and time overruns in construction, inefficiency in deliverance, inadequacies of maintenance, absence of meaningful revenues, and financial non-viabilities of huge investments, etc.) have been on account of the state-owned nature of the projects. But, the experience of many countries and the opinion gaining ground world over, show that shifting of water resources entirely to private domain has much more severe consequences (Gleick, 2002). The optimal solution hence lies in the company form of ownership for water resource projects, without affecting their public domain status. Evidently, under the company form of organization, corrections for the inadequacies of water resource projects can be sought by application of appropriate business management tools.

The above stated objective is not inconsistent with today’s needs as many of the water resource experts and reforms committees / commissions have recommended for such management applications. The stated objective is also in tune with the recent trends as many of the ongoing projects have come up under the company form of organization (e.g. Indira Sagar Project (Madhya Pradesh) under Narmada Hydel Development Corporation, Tehri Project (Uttaranchal) under Tehri Development Corporation, Sardar Sarovar Project (Gujarat) under Sardar Sarovar Narmada Nigam Ltd., and some of the hydroelectric projects under National Hydroelectric Power Corporations). With the equities being held by the central or state governments, these companies are essentially...
under public domain; but they also imbibe corporate concepts such as equity participation, financing through unsecured and secured securities, strategy and policy formulations by Board of Directors, preparation of balance sheets, and auditing of accounts, etc.

It is an accepted fact that the theories of social economics are pretty well buried today (Wheeler & Sillanpaa, 1997). Way back Hegel predicted that the basic unit of modern society would be state, Marx that it would be the commune, Lenin and Hitler that it would be the political party; and before, that, successive saints claimed the same for churches, the feudal manner and the monarchy but alas, they have all proved wrong. Unquestionably the most important form of organization that has emerged is the company, which is also the best hope for the future. And in view of this, the company form of organization warrants re-examination of the stakeholder concept for management of water resource projects in public domain.

2 BUSINESS ENTERPRISES, THE CRADLE OF STAKEHOLDER CONCEPT

The prolonged and troubled history of business enterprises laid the foundation of stakeholder concept. For most part of the business-enterprises history, the development had been synonymous with growth of wealth; and much of the efforts were directed towards owners (shareholder) versus workers (stakeholders) relationships and conflicts. The history is also brimming with instances of efforts made by several economists, socialists, psychologists, scientists, engineers, and managers to overcome, or at least to limit, these conflicts. An investigation into this long history of business enterprises – initially in Europe, and later also in United States of America; for a period commencing from renaissance, and up till establishment of modern-day management concepts – has
been carried out so as to gain such managerial insights that may have relevance to water resource development as well.

2.1 History of Business Enterprises

The business development was set into motion during Renaissance, which began approximately in 1400s with the rebirth of capitalism\(^1\). This set the tone for Machiavellian\(^2\) Humanism, which created powerful merchants, princes, and merchant-princes, and increasingly powerless society of common folk, small craftsmen and businessmen. Simultaneously rose the Christian Humanism, which sought a way to respect and celebrate the rights of individual while, at the same time, preserving the social virtues taught by the Church. However, the Protestant Reformation\(^3\), which began in early 1500s, freed the merchants and others in business from the right of Church to judge their activities or to call their practices unethical. Another development of the era related to the emphasis placed on scientific approach, which focused on the quantifiable i.e. data; and since concepts such as human values, ethics, and quality, were obviously not quantifiable, therefore became irrelevant for science as well as development.

The period of Reformation was followed by the Enlightenment period, and the most important development of this period was the *laissez faire*\(^4\) theory of Adam Smith, which while laying the rules of game for economic development also gave license to businessmen to focus entirely on self-interest. This was followed by the Industrial Revolution period, which saw emergence of ‘utilitarianism’\(^5\) and ‘Social Darwinism’\(^6\) that further tilted the economic thinking in favour of businessmen. The Machiavellian humanists in society thus moved quickly to take advantages, as was seen in case of robber-barons\(^7\) of the United States of America. Understandably, the Industrial
Revolution period also saw the beginning of unionising, with simple logics that there was no point in arguing ethics with businessmen; the only thing they understood was the bottom line; and the only way to force change was to threaten that bottom line.

The unbridled economic philosophies favouring business owners were challenged by other quarters as well. Around 1830s, John Stuart Mill declared that while the law of supply and demand should regulate the generation of wealth, government should involve itself in the distribution of that wealth (Mill, 1957). Spelling the concept of socialism, Robert Owen said that the community rather than the individual should become the focus in terms of development. And the extreme was reached in 1848 when, after the worst economic depression in European history, Karl Marx’s Communist Manifesto appeared; which over the years gained momentum and markedly shook the Free Enterprise theory. During the last half of 1800s, European countries as well as USA seriously begun searching the middle ground, one that lay somewhere between the extremes of laissez faire economics and communism. This saw emergence of “Christian School of Political Economy” focused on the belief that man and his development, rather than accumulation of ever-increasing amounts of wealth, should be the driving force behind every economic pursuit. They also argued that if competition were perfect, if it were truly ruled by the law of supply and demand, government intervention would not be necessary; but continued that such perfect competition did not exist.

Besides affecting political thinking, the later part of industrial revolution and subsequent period also saw great changes in the business management process. Fredrick Taylor (1911) introduced the concepts of Scientific Management by identifying lack of standardization and poor management practices as two primary problems of the
production. Apart from standardizing and improving technical system, he worked to standardize and improve the relationship between workers, managers, and machines. Later, Fayol (1930) identified the scientific procedures necessary to run the entire organizations, while Max Weber (1947) helped clarify the need to move from the mechanistic to the organismic perspective. Weber called for a strict pyramidal hierarchy of authority, comprehensive set of rules and procedures that governed every aspect of employee’s job; with this was born the concept of bureaucracy that centred on depersonalisation of the management function. These developments however stimulated immediate resistance from workers and unions, who saw the approach for increasing operational efficiencies as taking away of jobs; though these were welcomed by the business owners as it suited their old scarcity mentality. Opposition also came from other “human relations” school of management theory, who believed that key to increased productivity and profits was the realization that workers were not machine parts at all; neither were they non-purposeful parts of an organism / organization focused solely on growth (Roth, 1999). The later day development essentially relate to the battle between those who wished to empower workers and those who continue to favour the traditional autocratic, top-down form of decision making.

Despite its unassailable position, the flaws in the iron rules of free enterprise were easy to spot, and the biggest flaw was in the omission of the human element. It was not possible to isolate economic behaviour from social pressures or normal human psychology. Evidently, Adam Smith’s ‘invisible hand’ of behaviour - which should ensure that even when following selfish interests, economic actors do not cause moral decline - had not always materialized. Even the application of Scientific Management could not mark a significant change owing to the limited knowledge of human behaviour. Its underlying
assumption that people were rational and motivated primarily to satisfy their economic and physical needs overlooked the human desire for job satisfaction and other social needs. Realization of these facts changed the course of business development.

2.2 Assimilation of Human Values and Managing of Enterprise Conflicts

Assimilation of human values in business came with the new understanding of the scientific endeavour. During 1920s, E.A.Singer (1948) said that ideals (absolute truths) reach beyond the constraints of scientific rigor and hence our quest for absolutes should include human values in the equation. He also pointed out that in our search for solutions to problems, the walls between different sciences, and between science and arts, had to come tumbling down. Attacking the traditional “Analysis” tool of science, Ludwig von Bertalanffy (1951) laid the groundwork for “general systems theory”, wherein he said that even though the characteristics discovered through analysis were important, “A whole is more than the sum of its parts”. He said that the interactions between parts were just as critical as the parts themselves, and that the interactions of the whole with the environment of which it was a part was also critical. Systems approach provided a meta-theory that incorporated all others, one complete with fundamental laws and principles relevant to all sciences, one which, by moving outward as well as inward, provided a thoroughly acceptable rationale for the incorporation of human values into scientific work. Conceivably, the human values might not always affect the individual parts of a system; but they certainly affect the interactions of that system with the external environment, of which it is a part. This approach provided a way of looking at the organization as a whole and as a part of the larger, external environment.
In the history of business enterprises, two types of conflicts had emerged. The first conflict was on the ultimate societal values, between the Machiavellian humanists and the Christian humanists. And, second on the management philosophy and profitability, between ‘efficiency-at-all-costs’ mechanists and the ‘employee-come-first’ human relations type. The contribution of three men – Adam Smith, Robert Owen, and Fredrick Taylor – stand out in correcting the course conflicts, and improving the lot of both individual and society. Adam Smith gave the rules of the game for economic development, which, with varying degrees of modification, have withstood the test of time and are currently being followed by every industrialized nation in the world. Robert Owen defined and demonstrated the approach to management that most effectively utilized employee potential, and led to humanization of the workplace. Fredrick Taylor made science the friend of productivity by demonstrating how scientific method could be used to measure and increase the efficiency of both machinery and individual and, therefore, how it could be used to improve the bottom line. Thus evolved Economic theory, management theory, and production theory are the three cornerstones upon which the modern business world has been built.

However, the people with Machiavellian tendencies have used at least two of the above theories for purpose other than those intended by their originators. While Adam Smith saw the laissez faire approach to economics as a means of benefiting society by unleashing individual potential, others saw it simply as license to focus entirely on self interest, as license to get away with anything they could. While Fredrick Taylor saw scientific management as a vehicle for increasing productivity so that workers as well owners could benefit, many owners saw it simply as a way of getting more work and squeezing more profit out of labour. Although a great deal of good had come from the
contribution of Smith and Taylor, a great deal of harm has also resulted. These men were idealistic, and obviously did not understand the staying power of the scarcity mentality of business owners.

During mid 1900s and later part of business development, the conflict was essentially between the quantitative (numbers or efficiency oriented) and the non-quantitative (emotions or psychology-oriented) camps. Attempting to wed the two schools of thoughts, Eric Trist (1980) developed the concept of socio-technical systems, resulting in evolution of autonomous work group concept. This was the first true attempt for empowerment of the workers, and was found to be most successful in Sweden in 1970s. Chris Argyris (1957) made the point that employees behave the way they are treated. Rensis Likert (1976) found those managers to be more successful who actively supported their subordinates’ feelings of self-worth and importance; and he identified four requirements that all employees needed to have satisfied: (1) Ego – involving one’s sense of self-importance and respect. Am I able to gain approval and acceptance?, (2) Security – Do I have to worry about losing my job?, (3) Curiosity / Creativity – Will I be able to develop my potential on the job?, (4) Economic – While helping the company meet its economic objectives, will I be able to meet my own?. Russell Ackoff (1974) focused his work on Aristotle’s theory of human, believing that it provided the “ultimate idealized truth”. Aristotle basically said that the purpose of life is to develop and enjoy our positive human potential to the fullest possible extent; and hence the role of work is to help generate the resources necessary to such development and enjoyment. The four such resources are “plenty” (concerns with pursuit of wealth necessary to development, on an individual and on a societal level), “truth” (concerns with pursuit of key ingredients of education – data, information, knowledge, wisdom), “good” (concerns with formation of
a government as a means of regulating and integrating society on every level), and "beauty" (concerns with environment). Ackoff added a fifth resource "time", which concerned with availability of time to an individual to utilize all other resource inputs.

Looking at the business history, the enterprise conflicts have been about the allocation of scarce resources or a clash of goals, statuses, values, perceptions, or personalities. Evidently, the business owners and managers have often tried dominance and suppression in handling conflicts; but realisation of human values and recourse to better management practices has been far more effective.

3 ANALOGY BETWEEN WATER RESOURCE & BUSINESS DEVELOPMENT

Analogous to history of business development, the water resource development is also suffering from innumerable instances of acute conflicts; and the conflicts are essentially between individual (or a particular group's) interest, and the overall societal interest. The analogy may however be disputed by few on the grounds that stated conflicts can not arise in water resource projects because of the predominantly safeguarded societal interests under the schemes of social sector development. Undoubtedly, on the premises of social welfare, the water resource development in India has remained in the control of government so far; but the notions that concerns of all gets addressed by government equally, and that larger societal interests supersede individual / group interests in government decisions, are faulty. Besides, the parallel between water resource development and business development can also be drawn for following reasons:

1. Though renewable, water is essentially a limited resource. Because of the population pressure it is also becoming a scarce resource, thereby causing an unwarranted
competition amongst different sectors of its uses, regions, and states. This is akin to unhealthy (and often unfair) competition seen throughout the history of business enterprises, which was also routed on the scarcity mentality of business owners. In business, the scarcity mentality concerned with the distribution of wealth - those without would go to any length to gain a share while those with would go to any lengths to protect and, as insurance, to increase their share (Roth, 1999) – and same is the case with distribution of limited available water.

2. Similar to the case of business, the competition for water may have two levels. The states / regions / user-sectors are the players on the first level and may win or loose while increasing their share, but the nation (larger society) is on the second level, always winning. However, the interstate and interregional competitions for water are not perfect, evidently for want of a referee. In the present constitutional interpretation where water is essentially treated as a state subject, the Central Government is not aligned to assume the role of a referee; and as such most of the competitions are turning into conflicts, where nation is always loosing, irrespective of who wins the conflict.

3. The development of water resources can take place only at certain social and environmental costs; and protagonists of water resource projects, in their quest for development, often compound these social tribulations and environmental harms. This tendency can be rightly compared with the tendency of business owners to espouse for growth of wealth, in the name of economic development, even at immense costs of human sufferings and environmental degradations. The long history of exploitation of workers by business enterprises, and their propensity to define work
3. As “sacrifice willingly undertaken by workers”, correlates with the treatment meted out to project oustees, and the general tendency to project their forced (though compensated) evacuation as “sacrifice for the greater welfare”. Similarly, the scant regards given by business owners to the issues of unchecked exploitation of natural resources, pollution of air, water, and soil, etc. matches with the failings of the project proponents in gauging the environmental and ecological impacts of the water resource development.

4. Like any other engineering development, the major tool for understanding and resolving the issues of water resource projects has been ‘Analysis’, wherein by understanding smaller parts of the problem, the whole is presumed to be understood. But the ‘Analysis’ approach moves “inward” tending to make the engineering aspect increasingly focused and isolated from other fields, and also suffers on account of overlooking the interactions of whole with the environment. However because of the widest range of interactions with the environment, the water resource development portrays the best case where whole is more than the sum of its parts. Evidently, the correct remedy lies in application of “Systems” approach, which studies the interactions of parts as well as that of parts with the environment, besides encouraging the study to move “outward” fostering an interdisciplinary approach.

5. The water resource development also suffers from the flaw of “omission of human element”. Water resource projects are often seen as technical system with economic dimensions, but devoid of social pressures or normal human psychology. Also, the moral declines, caused by its players, are obviously not checked by any ‘invisible hand’ of behaviour. In case of business, the governments are sometimes seen to
substitute the role of ‘invisible hand’; but the best results are obtained when business chooses to internalise the ‘human values’. However, in water resource development, the governments only play the role of promoters / facilitators (like business owners) and hence their role as regulators often get questioned. Tracing the course of business development, evidently, the best course for water resource development also lies in maximizing the assimilation of ‘human values’ and internalising the concept of ‘social accountability’; and in this respect, the projects are required to be viewed as socio-technical systems, rather than technical systems.

6. Another contention for correlating the water resource development with enterprises oriented economic development relates with the manner in which water resources projects are operated after completion. Often, with focus on short-term generation of wealth, business enterprises tend to overlook the rightful needs (such as product quality, service, safety etc.) of its consumers. In case of water resource projects, the short-term objectives - often political - leads to jeopardising of the interests of project beneficiaries. Over the years, the arena of business development has seen empowerment of consumers in the form of consumer groups, consumer protection courts, etc.; however, in case of water resource projects, empowerment of project beneficiaries are meekly attempted, or accomplished.

After passing through a turbulent route, the business has evolved into its present form with management concept developing closely on its heels. Out of several theories, forms, and models of management that have evolved, the most acceptable form of business management today is based upon stakeholder relationship concept. Largely found successful in case of business enterprises, the stakeholder management concepts can also
be applied in water resource projects, so as to provide the vital framework needed for understanding and resolving its numerous conflicting issues.

4 PROGRESSION OF STAKEHOLDER CONCEPT

Though well established in the political theory, the stakeholder paradigm provides a backdrop to the social benefit-cost analysis in the welfare economics. It was originally introduced for business enterprises, the scope of the stakeholder term has since enlarged, and its applicability also became relevant to other social domains. However, even in business, the stakeholder concept was not introduced in entirety; instead, it followed a path of progression before attaining the present form (Stoner, 1992). Thus, despite stemming from the revolutionary developments in business enterprises, the stakeholder concept was actually evolutionary. It would be however difficult to mark down all the stages of stakeholder concept’s progression process, though the important phases of progression can be identified as (i) origin of corporate social responsibility concept; (ii) shift from the concept of social responsibility to social responsiveness; and (iii) arrival of the concept of business ethics, leading to present-day form of stakeholder concept.

4.1 Concept of Corporate Social Responsibility

The concept of corporate social responsibility was probably first introduced by Andrew Carnegie, a robber-baron, in 1899. The concept was based on the then prevalent charity principle (i.e. doctrine of social responsibility, requiring more fortunate individuals to assist less fortunate members of society) and stewardship principle (i.e. Biblical doctrine that requires business and wealthy individuals to view themselves as stewards or caretakers, holding their property in trust for the benefit of the whole society). The views of Carnegie were essentially paternalistic where he viewed business owners as parents to
childlike employees, and customers, who lacked the capacity to act in their own best interests (Stoner & Freeman, 1992). Looking morally and ethically correct, while conveniently fulfilling vested business interests, the principles of charity and stewardship were widely accepted by businessmen. The wealthy businessmen assumed the responsibility of multiplying society’s wealth by increasing value of property under their own stewardship.

Though widely accepted for considerably long period, even up-till 1950s and 1960s, doubts began to undermine the charity and stewardship principles of social responsibilities. As community’s needs and expectations outgrew the contributions of most generous individuals, people started realising that social responsibilities were no more the choices of an individual’s free will, and business concerns were morally bound to pursue them. At a time when social responsibility concept was at its peak, H.R. Bowen (1953) insisted that business concerns are morally bound to take actions desirable in terms of objectives and values of the society. Thus a different concept of social responsibility emerged which viewed business both as a reflection of social objectives and values, and as an agency for promoting them (Stoner & Freeman, 1992). However, confusion still remained with the notion of ‘social responsibility’, as there was no appropriate measure for the magnitude of corporate concern for social responsibility, and corporates chose their social obligations according to their own notions and priorities.

Termed as ‘smokescreen’, the social responsibility concept was criticised by some as means for hiding profits and greed of businessmen. Some social activists believed that business would act decisively on social problems only if persuaded by the government. Objection to the concept of ‘corporate social responsibility’ also came from some others,
but with a diametrically opposite point of view. Economist Milton Friedman (1963) contend that primary responsibility of a business was to maximise profit, and diversion of resources by corporate for social good would unfairly tax its shareholders, employees and customers.

4.2 Responsibility to Responsiveness

With a view to obtain concrete results, and in a practically meaningful manner, the business corporate gradually started focussing on their response to the social issues. Robert Ackerman (1973) suggested that responsiveness, not responsibility, should be the goal of corporate endeavours. He described three phases of developing corporate response to social issues, namely (i) acknowledging of existence of social problem, (ii) study of problem and formulation of plans and (iii) implementation of plans. He also advised business concerns to act early in the life cycle of any social issue, so as to remain ahead of government dictate or public opinion forcing them to act.

Elaborating on the corporate responsiveness, Lee Preston and James Post (1975) suggested that primary relations of business (with customers, employees, shareholders and creditors) are market driven and when these relations create social problems, secondary (or non-market) relations, such as law and morality come into play. They argued that both government and public opinion fix the limits of a company’s primary and secondary relationships with the society. In his theory of ‘Corporate Social Performance’, Archie Carroll (1979) stated that economic, legal and ethical principles of society create a social contract between business and society. The companies implement the principles of social contract in their policies and decisions by being reactive (responds after the social demand/challenge is made), defensive (acts to ward off the challenge),
accommodative (falls in line with public opinion), or proactive (anticipates social demands that have not yet been made) (Wartick & Cochran, 1985).

4.3 Ethics in Business, Leading to Present-day Form of Stakeholder Concept

Though there was a shift from responsibility to responsiveness, the desire to have a more realistic approach for taking managerial decisions in the framework of social responsiveness still remained. The question yet remained related to which values should social responsiveness encourage, and to what extent? And, should companies change their social priorities with government priorities or with public perceptions (public opinion), or should they follow their own set of priorities? Answer to all these were linked with the company’s internal (moral) value system; and this confusion was rightly referred as ‘ethics crisis’ by James Stoner and Edward Freeman (1992, P.102).

‘Ethics’ is a more general term that covers both internal (moral) and external (socially accepted but dynamic) dimensions. It reflects upon our own value system and its effect (reflected by our decisions) on others. In business, most ethical questions fall in four levels; viz., (i) the larger society; (ii) the group of people associated with the company; (iii) the internal policy of company; and (iv) the personal level of individuals of the company (Stoner & Freeman, 1992). When it comes to individuals, their commitment to ethics is further going to depend on three factors, which are: (i) individual’s sense of values; (ii) what society accepts as a norm; and (iii) monitoring and control systems of the corporate for inculcating ethics (Vittal & Mahalingam, 2001). Ethics in business concerns with ground rules of individual, company and societal behaviour and covers aspects like values (e.g. integrity and honesty), rights (e.g. freedom and autonomy), duties (e.g. law abiding), morals (e.g. truthful and trustworthiness), and relationships etc. Many a time
business enterprises institutionalise ethics, by creating corporate code of conduct, ethics committee, ethics training programs, and conducting social audits. However, even the concept of ‘ethics’ suffers on account of relativism\(^\text{16}\), and much of social responsibility is again left to individual discretion. Basically, ethics deals with the choice of right over wrong while social responsibility deals with business behaviour leading to good corporate citizenship.

With the concept of ethics setting in, the corporate critics started looking at business firms not only as the organiser of economic production but also as a key producer of environmental impacts. They held the corporations responsible not merely for its economic performance but also for its side effects (Ghosh, Maheshwari & Goyale, 1985). The new ethics approach desired a change in the organisational goals and objectives, in which they were no longer to focus on creation of economic wealth, but on preserving and building up of economic, social and natural wealth. With this transformation came the broadening of business responsibilities and also the broadening of interest groups involved with the affairs of the business. The variety of interest groups represented creditors, investors and managers; and also employees, trade unions, customers, government and general public. These groups were collectively referred to as stakeholders by Howard Perlmutter (1976).

**PRESENT-DAY FORM OF STAKEHOLDER CONCEPT**

Progressively building upon merits of corporate social concepts, the seeds of the present-day form of stakeholder concept were laid sometimes when the business firms were going through transformation from its proprietary form to the corporate form, and the firms started getting viewed as social organism (Vatter & William, 1947). With business
organizations gradually accepting the stakeholder concept (especially in the developed economies), the stakeholders soon became the interface between the corporate and the society. However, for many in the corporate world, the term 'stakeholder' appeared to be a broad expression describing a flexible system with porous boundaries.

5.1 Definition of Corporate Stakeholders

The term ‘Stakeholders’ for business firms has been defined by Freeman (1984) as “any group or individual who can affect or is affected by the achievement of a firm’s objectives”. In comparison to ‘stockholders’, he terms ‘stakeholders’ as the larger and more varied community who are affected directly or indirectly by the organisation’s pursuit of its goals (Stoner & Freeman, 1992).

In a simpler but wider context, the term ‘stakeholders’ for business corporate is also defined as “individuals and entities who may be affected by business, and who may, in turn, bring influence to bear upon it”. As per this definition, elements of environment are also stakeholders, though their inclusion as stakeholder can be daunting for a company because there are few areas of management where the stakeholders come from so many different directions at once (Wheeler & Sillanpaa, 1997).

5.2 Stakeholders as Part of Business Environment

Business organisations are dependent on the external environment for exchange of resources. They take inputs (raw materials, money, manpower and energy) from the external environment, transform them into products or services, and deliver as outputs to the external environment. The external environment reacts both directly and indirectly. Stakeholders directly influence an organisation; and so are elements of the direct-action
environment (Stoner & Freeman, 1992). Some stakeholders - such as employees, shareholders and board of directors - are considered internal stakeholders, while others - such as labour unions, suppliers, customers, financial institutions, competitors, special-interest groups, media and government agencies - are considered external stakeholders.

The investors, employees, suppliers, customers, competitors etc. have economic stakes in the company as they can affect or be affected by the company’s financial performance. The labour unions, special-interest groups, media and government agencies have a stake in the company’s impact on people and environment, as well as their economic impact. While most of the stakeholder groups are well known and their interests are palpable, the special-interest groups (SIGs) are not easily comprehensible for their intended and unintended actions. The SIGs - represented by community groups, environmental organisations, human rights organisations, consumer advocates etc - many a time use political process to further their position on some particular issue. They mobilise the masses to influence political leaderships, government machinery and also the judiciaries. The media can invite national attention to such groups instantly. Among the most important SIGs are the consumer advocates and environmentalists (Stoner & Freeman, 1992).

Indirect-action elements, such as the technology, economy, and political groups of a society are not stakeholders, but affect the climate in which an organisation operates. Indirect-action elements may affect the organisation either by directing the formation of a group that eventually becomes a stakeholder, or by creating a climate to which the organisation ultimately has to respond and adjust. Broadly classified as social, economic,
political and technological (Fahey & Narayanan, 1986), the indirect-action elements thus have the potential to become direct-action elements, or stakeholders.

It is an element’s practical impact on an organisation that determines whether it is a stakeholder or not. Also, a single individual or group may have multiple relationships with an organisation, and may even have to look for a balance among conflicting roles. Further, the roles stakeholders play may change as organisational environments evolve and develop. As the organisational environment grows more complex, it becomes harder and harder to identify stakeholders and sort out an organisation’s conflicting obligations (Stoner & Freeman, 1992). In fact in today’s context, the ability to understand and satisfy the expectations of multiple stakeholders who have diverging and sometimes conflicting interests, has become an essential corporate competency factor (Svendsen, Boutilier, Abbott & Wheeler, 2002). The stakeholding is really a question of balance (Plender, 1997). The notion of stakeholding is not collectivist, nor is it soft in the non-competitive sense (Kay, 1995). Rather it is based on a sophisticated view of the company as a social vehicle. The social and commercial transparency leads to greater organizational identity and efficiency. The enterprises that are run in the interest of a wide range of stakeholders devote more of their resources for monitoring the environment; and are more likely to behave responsibly.

5.3 Corporate Accountability to Stakeholders

The accountability of business corporate to stakeholders became necessary to give visibility to the impact of its activities upon society. A concept of corporate social reporting also came into practice in order to communicate corporate response to various stakeholders. The corporate social reporting - also referred by some as ‘social
accounting', 'social audit', 'social responsibility accounting', 'social information system', societal accounting', etc. - essentially involved reporting about corporate social activities having a bearing on issues such as ecology, working condition, environment and the quality of life of the society at large. While on one hand, the 'social accounting' helped the business management to identify, measure, record and report the corporate activities with a view to permit informed decision making in respect of activities having direct or indirect effect on the fabric of society at large. On the other hand, the 'social audit' helped the stakeholders to enquire into the corporate social accounting records by an outside agency with a view to attestation and authentication of such records and reports (Ghosh, Maheshwari & Goyale, 1985).

In order to facilitate corporate accountability and analysis thereof, R.L. Brummet (1973) identified five possible areas in which corporate social objectives may be found and each area contribution of corporate social activities may be measured and reported. These areas are (i) Net Income Contribution, (ii) Human Resource Contribution, (iii) Public Contribution, (iv) Environmental Contribution, and (v) Product or Service Contribution. Looking at the present-day role of corporate in diverse spheres of research and development, the sixth area of corporate contribution can be identified as 'Knowledge Contribution'. The 'Net Income Contribution' indicated the value added to material and services acquired by firm's activities, and thus gave the firm's profits a societal perspective. The emphasis on net income contribution marked the shift from purely profit seeking behaviour to socially desirable profit behaviour, leading to unification of profit and societal objectives. The 'Human Resources Contribution' reflected the effect of organisational activities on the firm's human resources, and covered areas like recruitment policies and practices, training, experience building, job enrichment, wage
and salary levels, trade-union relations, employees attitude, congruence of organisational and individual goals, job safety, mutual trust and confidence building, transfer and promotion etc. The ‘Public Contribution’ registered the firm’s contributions towards creation of jobs, provision of employment, development of skills and education, development of local services, and general philanthropy (e.g. employment of handicapped persons), besides their role in times of natural calamities like earthquake, drought and floods. The ‘Environmental Contribution’ measured the corporate objectives in abatement of the side effects of industrial productions - such as production process leading to air, water and noise pollution; deforestation and displacement of people with project construction and expansion; and use of irreplaceable resources at the cost of future generations. The ‘Product or Service Contribution’ dealt with the qualitative aspects of the organisation’s product or service (e.g. utility, durability, safety, serviceability, customer satisfaction, truthfulness in advertising, completeness and clarity of labelling and packaging etc.). The ‘Knowledge Contribution’ indicated the investment extents for the research and development activities – in diverse areas of medicines, communication, environment, agriculture, astronomy, space exploration, etc.- directed for the welfare of mankind.

The social accountability implies value judgement arising out of the social concern. It is generally believed that public accountability exists when an enterprise has widely held debt or equity securities; significant social or economic impact; or it uses significant amount of funds from the general public (Maheshwari, 1981). However, the degrees to which corporate entities should be exposed to public scrutiny on the issue of social accountability is debatable. Though in some countries the corporate accountability concept has been used for enhancing corporate social accountability - to varying levels of
success - yet the concept by and large failed to make a mark, especially in developing economies like India.

Apart from lack of corporate will and absence of legal compulsions, the concept of corporate accountability suffered for want of a basic unified theoretical framework. This happened because there is no basis for a comprehensive system of social indicators to be used as yardsticks for evaluating the societal performance of business corporations. This complexity is more visible in the case of environmental concerns where many researchers have been trying to develop methods that can help measure the environmental impact of corporate actions using differing measuring rods (TERI, 1998). Reservations for environmental accountability are also on account of difficulties faced in integration of social objectives and corporate business objectives, because of the ill defined parameters of assessing total costs and benefits of environment related activities. For instance, an enterprise may spend large amount of money for control of pollution due to its activities, and may like to project it as benefit to the society. But it is doubtful if such costs can be quantified as benefits, especially against the cost paid by the society in respect of deterioration of environment by the activities of enterprise in the first place.

Notwithstanding above limitations, the performances of business enterprises is increasingly getting linked with the issue of sustainability; leading to the demand for assessing corporate performances against a ‘triple bottom line’ of economic development, environment quality, and social justice or equity (Elkington, 1997). A genuine commitment to sustainability will manifest only with full transparency on environmental and social impacts, and absolutely honest engagement with stakeholders (Wheeler & Sillanpaa, 1997). Because of such realization, enterprises - especially large
ones - are increasingly looking at environmental and social values in strategic contexts and including sustainability issues in corporate mission and value statements (Wheeler & Elkington, 2000).

The stakeholder approach to management is now being globally emphasised, which also brings into perspective the concept of corporate governance. The social institutions that influence the process of strategic investment in corporate enterprises – who makes investment decisions in corporate enterprises, what types of investments they make, and how returns from successful investments are distributed – can be characterised as a system of corporate governance (Sullivan Mary, 1998). At any point in time in contributing to the prosperity of the concern, the governance system generates two conditions: organizational integration and financial commitment. However, financial commitment confronts one powerful threat to the preservation and expansion of the corporation as a productive enterprise; namely, the extraction of returns from the enterprise by shareholders. This situation has obviously generated the debate dominated by ‘shareholder-control’ perspective on governance. However, the problem of corporate governance is not resolved by simply advocating that industrial corporations be run for other stakeholders besides shareholders. The danger is that different groups who can lay claim to share of corporate prosperity will extract corporate revenues, whether or not their contributions to the generation of these revenues make these return possible on a sustainable basis.

Thus the result of the creation of a ‘stakeholder society’ might be to increase the propensity for major industrial enterprises and the economy in which they operate to live off the past rather than invest for the future. The stakeholder argument thus runs the risk
of encouraging other groups, besides shareholders, to become claimants to a given, and even diminishing pool of returns. To avoid such an economic stalemate requires a conception of how investments in people working together in organizations can generate the returns in international competition that makes prosperity sustainable. This can be hopefully possible by generating the social foundations on which organizational control in corporate economies can be democratized (Sullivan Mary, 1998).

5.4 Stakeholder Relationship and its Significance

To some of the business organisations, stakeholders’ importance may be limited to the extent of compelling and legal reasons; some others may respond to stakeholder groups due to a sense of social responsibility; but some see stakeholders as creating value for the company. Thus three levels of relationships have been identified, which a company may have with its stakeholders (Svendsen, Boutilier, Abbott & Wheeler, 2002). The lowest level of stakeholder relationship is called ‘Compliant’, which is socially obligatory for the company because of market and legal constraints. The second level of relationship - called ‘Responsive’ - is the outcome of company’s internalised social responsibility, in agreement with society’s norms. The third and the highest level of stakeholder relationship - called ‘Engaged’ - happens, when the company develops competency to navigate uncertainty and maximise opportunity in engaging stakeholders on all issues of concern.

It is being increasingly realized that commercial success will increasingly favour the community-based, stakeholder inclusive companies. The large companies are also beginning to recognize that legitimacy in society is an active responsibility not a passive one, and that the stakeholders are source of strength, rather than of instability. Business
can successfully create two kinds of value: commercial and social; commercial and social values are mutually reinforcing, leading to greater stakeholder loyalty and corporate resilience.

Slowly and steadily the corporates have come to realise that relationships between a firm and its stakeholders constitute an important business asset; though pathways to convert this asset into strategic advantages for the firm are still not very clear and well understood. However, it is increasingly felt that technology and globalisation are making networks of relationships a decisive asset (Castells, 2000). Certain studies have shown that there seems to be a valid correlation between business success - measured in terms of some of the financial performance indicators - and good stakeholder relationships (Kotter & Heskett, 1992). It is believed that companies with high degree of stakeholder relationships (or stakeholder-oriented companies) remain in harmony with the business environment, which in the long term brings a positive influence on the companies’ bottom line. This can happen because stakeholder-oriented companies get access to information that allows them to anticipate opportunities, and also anticipate problems and resolve them timely at lesser costs (Clarkson, 1991). This is also evident from the views of Peter Drucker (1993) that the most basic and important economic resource is no longer money or labour or power or natural resources; rather it is knowledge, which is information that takes values into account.

The link between stakeholder relationship and the company’s competitive advantage is manifested in at least four identifiable areas (Svendsen, Boutilier, Abbott & Wheeler, 2002). These are (i) Shareholder risk – due to company’s failure in establishing and nurturing positive stakeholder relationships; (ii) Innovation – for which relationships with
employees, supply chain, business partners etc. is a prerequisite; (iii) New markets and opportunities – for which information as well as resources are provided by the dense network of relationships; and (iv) Reputation and Brand Value – which are created by good stakeholder relationships. To create and maintain shareholder value in the market, companies generally spend large amounts of money, a part of which gets saved by establishing sound stakeholder relationships. Companies tend to become more innovative by making appropriate use of stakeholder relationships to transform intangible assets of knowledge into tangible assets like new processes, products and services. Companies with strong stakeholder relationships get social preferences that can be translated into new opportunities, and competitive advantages in expanding markets. Consumer-attitude studies have established that substantial proportions of consumers prefer brands having social reputations and associated with good cause.

Productive activity of a business company essentially involves mobilisation of the company’s resources (both tangible and intangible) to create various capabilities. The rarity and inimitability of resources determines the extent to which they confer a competitive advantage upon the firm’s capabilities. Stakeholder relationships also influence the flow and use of other resources such as financial capital, intellectual capital and human capital. To some extent stakeholders act as gatekeepers to resources that firm needs and the quality of a company’s relationships with its stakeholders can be seen as an indicator of the organisation’s capability to access valuable resources (Svendsen, Boutilier, Abbott & Wheeler, 2002).

Till recently, competitive advantage was thought to be the product of only the tangible economic factors such as price, quality, and service. But with technological developments
and globalisation of the business, economic factors have become nearly uniform across the competitors, and factors such as price, quality and service are no longer the key drivers of business advantage. On the other hand, leveraging on factors like ‘brand-value’ or ‘brand-awareness’ in today’s information based economy gives a distinctive advantage to firms. However, investing the firm’s energies for a positive stakeholder-interaction over a long time only can create the intangible resource like ‘brand-value’, with a competitive or definitive advantage. And, since success is going to depend upon brand equity, the role of corporate ethics has also become very central and critical. (Vittal & Mahalingam, 2001).

5.5 Measurement of Stakeholders’ Relationship Value

Since a company today depends on its stakeholder relationships for competitive advantage and continued survival, the measurement of stakeholders’ relationship value (or simply called, stakeholder value) - which a company has painstakingly created over a prolonged period of time - is of immense importance. In the complex and rapidly changing business environment, proper measurement systems are the only way to understand and respond to shifts in stakeholder expectations; but the measurement systems for corporate social / stakeholder performance, till date, are in their infancy.

There are two broad types of measures, which are under development. The first category focuses on the social ‘impacts’ (or outcome) of the corporate activity (e.g. employee safety record). The second category focuses on the ‘quality’ of the social relationships that exists between the company and its stakeholders (e.g. employee satisfaction). The ‘impact’ indicators have the advantage of being observable and verifiable. But they have the inherent disadvantage of being retrospective, and do not reflect upon what
stakeholders wanted or expected in the first place. The second category, or the ‘quality’ indicators have the advantage that they focus on the drivers of performance, and therefore can be used to predict outcomes of stakeholders relationships. But the quality measures have the disadvantage of often being perceptual. Considerable work has been done on these indicators, especially from marketing (e.g. market research for consumer satisfaction) and human resource angles (e.g. tests for employee satisfactions). But for measures of stakeholder relationships with groups such as suppliers, government agencies, communities, environmental group etc, there are hardly any visible developments.

One of the approaches for measurement of social (or stakeholder) relationship is the concept of ‘social capital’, which is an indicator of the quality of organisation’s relationships with stakeholders. The social capital reflects the extent of relationship among people that facilitates collective action and access to resources. The concept has been generally applied in context to people’s participation in voluntary organisations and functioning of communities; and in this context, the social capital is measured in terms of levels of trust and levels of voluntary participation of individuals. In context to business organisations, the social capital is seen as having three key dimensions, namely (i) the structure of social network, (ii) the relationship (based on trust and reciprocity) and (iii) the shared understanding of values and goals (Cohen & Prusak, 2000). In business context, the social capital can thus be defined as the stock consisting of active connections (or networks) based on trust and reciprocity, among people who have shared values and goals. Companies generally have single link relationships with many stakeholders who in turn have relationships with other stakeholders, thus constituting a network of social relationship. The reputation and trust that the organisation builds up
with the stakeholders forms the social capital. This social capital is embedded in the relationships that the company has established with the stakeholders. Clearly the social capital belongs collectively to the network, and not to an individual or a particular organisation. All the constituents of the network draw on the common pool of social capital, on the basis of established norms, mutual trust and reciprocity.

Three types of social capital have been described in literature. They are (i) Bonding Social Capital, which is used to describe the high levels of community participation and mutual support in rural communities, but not for outside the community or for minorities in the community; (ii) Bridging social capital, which is associated with inner-urban areas where there is greater tolerance, more ties with members of minorities and outside communities, and more reliance on individual initiative instead of mutual support; and (iii) Boundary-spanning social capital, which refers to the dynamic individual and organizational capabilities for networking beyond the firm, via boundary spanning. While the first two types differentiate the group’s internal cohesiveness (i.e. bonding) versus the group’s external ties (i.e. bridging), the third one has been used in context to firms dealing with sustainability in a strategic concept (Svendsen, Boutilier, Abbott & Wheeler, 2002). It is increasingly believed that social capital creates business value in several ways, such as: better knowledge sharing, lower transaction costs, low turnover rates, greater coherence of action etc. (Cohen & Prusak, 2000). In today’s business world, where the enterprises have risen to the level of trans-national corporations, few also see demerits in creation of social capital, such as in some groups misusing or taking advantage of the trust being placed by others.
Notes:

1. In capitalism the individual owner(s) controls the means of production, adjusting them in ways that will produce the most profit. Employees, in capitalism, work for wages supposedly tied to their productivity. The government benefits from their efforts through taxes, taking a percentage of the business profits and providing services in return. On the other hand, in a communistic economy, the government owns business and controls their production. It also considers the best, based on its interpretation of individual and societal needs, rather than on individual productivity.

2. Machiavelli was a realist of the first order, with lessons entirely antithetical to those being taught by the Church at that time. His basic thesis was that if all men were good, the best course would be to proceed in a respectful manner, keeping one’s word and telling truth. But all men were not good and, therefore, if one wished to stay in power as a ruler it was necessary to do whatever one must to win, holding no promise as inviolate, seeing no man as a friend. He believed that he who was the least predictable ultimately won. He also said that appearances are more important than actions, image is more important than content because “everyone sees what you appear to be, few feel what you (actually) are, and those few will not dare to oppose themselves to the many” (Roth, 1999).

3. Protestant Reformation, though initiated by Martin Luthar (a priest) for reforming the church, affected the economic development process and thinking as well. With this new form of religion, insistence on good work was no longer there to encourage sense of selflessness, of community and cooperation. During this period, the concept of work also became tied to the concept of sacrifice; and got translated as “time and effort” sacrificed willingly in order to gain grace (Roth, 1999).

4. In his famous book, *Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776, Adam Smith expanded the hypothesis that natural laws existed in the arena of economic theory as well as in nature, and that if not disrupted by government activity, these laws would regulate the economy effectively. The most important of such laws was that of supply and demand. Smith also realised the selfish motives of industrialists, but viewed that the theory will not affect general welfare for two reasons; first “internal” reason was man’s inherent good that would keep owners from taking unfair advantage of their workers; and second “external” reason was that while in a laissez faire economy the individual “intends only his gain”, he is also “led by an invisible hand to promote an end which was not part of his original intention” (Smith, 1937).

5. Utilitarians propounded that usefulness was the only standard by which individual and society should judge moral conduct, and adherence to such a standard would produce the greatest good for the greatest number (Roth, 1999).

6. The apologists, called ‘Social Darwinism’ came up during second half of 1800s with the main tenets that the ‘law of jungle’ should be allowed to prevail in human society; every man had the freedom to do all that he willed; and the protection measures of the states for weaker segments was an infringement on the god-given rights of the strong (Roth, 1999).
7. A robber baron is an American industrial or financial magnate of the latter 19th century who became wealthy by unethical means, such as questionable stock market operations, or exploitation of labour, or political connections. The robber barons - during an approximately 50 years period - changed the United States from a society of farmers and merchants to a unified industrial society; but they did so at the cost of great sufferings. They kept their labour force as small as possible, overworking employees, then discarding them when they wore out and picking someone new from the line at the door. Their ranks included, John Jacob Astor, Cornelius Vanderbilt, Jay Gould, Jim Fisk, J.P. Morgan, Philip Armour, Andrew Carnegie, James Hill, John D. Rockefeller, Collins Huntington, Leland Stanford, and James Cook. With the exception of J.P. Morgan (whose father was a banker) all began poor; and all of them were products of strict, austere, protestant tradition. Their only objective was to win, no matter what the cost to others. They were pure examples of modern-day Machiavellian humanism. They generally “owned” the government during their reign. Politicians and political decisions were “brought”. Money flowed freely during elections. The concept of “lobbyist” (meaning a discreet go-between) was evolved during this period only (Roth, 1999).

8. Robert Owen was a manager of several cotton mills at New Lanark, Scotland, during early 1800s. At such a time - when working and living conditions for most workers were very poor – he decided that managers should play the role of reformer. He argued that improving the condition of employees would inevitably lead to increased production and profits. He believed that manager’s best investment was in workers, or “vital machines” as he called them (Stoner and Freeman, 1992).

9. Communist Manifesto of Karl Marx offered a doctrine for a forcible overthrow of the whole existing social order, and for the rebirth of that order as a classless society devoid of “explsive bourgeoisie” and guided by the previously exploited proletariat, and the working class. With the entreaty “From each according to his abilities, to each according to his needs”, Marx postulated that dictatorship of proletariat would be established and the state would wither away (David, 1962).

10. A competition needs a set of rule agreed by all contestants, and a referee acceptable to all contestants responsible for enforcing the rules, be that referee Adam Smith’s “invisible hand” or a government. A Competition has two levels. On the first, we have a win-loose situation. On the second level, however, we have a win-win situation. In an economic competition, players are on the first level and may win or lose while increasing their own wealth, but the society is on the second level, always winning. But such economic competitions may turn into conflicts when the rules are ignored or are changed to benefit only some of the contestants, when there is no referee, or when the referee has been “brought” by some of the players and makes decisions to benefit only them (Roth, 1999).

11. Analysis has traditionally been the major tool of science. In order to understand thoroughly a phenomenon in nature, a machine, an argument, analysis was used to break it down into its smallest, indivisible parts. The next step was to learn the characteristics of those parts. Once all parts were understood, the whole was presumed understood because the parts made up the whole. The sum of characteristics of the parts then represented the characteristics of the whole. However, since Analysis moved “inward”, different branches of science had tended to become increasingly focused and isolated from each other.
12. It has been difficult to determine the factors that lead to Machiavellian tendencies, though some psychologists relate them with people who are unable to make transition from the adolescence stage (with untamed need for gratification, to grab what is desirable, and to win) to the more matured stage of acceptable self-image and social role (Roth, 1999).

13. The success autonomous work group concept in Sweden was due at least in part to culture. Scandinavian populations are largely homogeneous and, therefore, share the same cultural values. Possibly because of the relative harshness of their climate, they also understand better the importance of cooperation. Being highly socialistic, Swedes take for granted that they would pay approximately 50% of their salaries in taxes. At the same time, their government provides a wide range of free services including education at all levels, job training, health care, and childcare. Swedish government is obliged by law to provide employment for all citizens. In such a situation where the basics as well as a decent lifestyle are guaranteed, the need for conflict and even competition is reduced, lessening the win-lose mentality. Because of the culture values, the power shared between management and representatives of labour is also better balanced (Roth, 1999).

14. The Andrew Carnegie, was the robber baron of the first order; but considered himself a Renaissance Man and a thinker. In his book Gospel of Wealth he equated wealth with intelligence. He argued that while the laissez faire philosophy was the best guide for the generation of wealth, in terms of its distribution the fortunate themselves, without the intervention of government, should contribute all “surplus revenues” directly to projects that would benefit society as a whole – schools, parks, libraries, hospitals, etc. What Carnegie preached obviously flew in the face of what he practiced; however the main importance of his contribution was that he gave one more alternative to the economic development. In fact, Carnegie’s alternative was later on brought to life by Henry Ford Andrew, who often said that the abolition of poverty was the only worthwhile end for business. Thus, the evolved three approaches are – every man for himself (laissez faire / Machiavellian humanism); government control (socialism / Christian humanism); and individual money-makers accepting social responsibility (laissez faire / Christian humanism). All three have inherent strengths and inherent weaknesses in terms of individual and societal progress. The challenge from this point in history on to the present, has been to find the best combination of the three (Roth, 1999).

15. The concept of social responsiveness means how organizations become aware of and then respond to social issues. It takes two basic approaches: on the micro level, it analysis how individual companies respond to the social issues; on the macro level, it studies the forces that determine the social issues to which the business should respond (Stoner & Freeman, 1992).

16. Most widespread form of relativism is naive relativism, which means that all human beings are themselves the standard by which their actions should be judged. The second form of relativism is cultural relativism, which claims that morality is relative to particular cultures, societies, or communities (Stoner & Freeman, 1992).

17. The term ‘sustainable development’ was popularised with the 1987 publication of a report from the World Commission on Environment and Development. The term was defined as that development which met the needs of the present without compromising the rights of
future generations to meet their own needs. This report prepared the ground for the UN Conference on Environment and Development in Rio de Janeiro in June 1992, subsequent to which environmental protection had come to central stage and was put in its proper political and socio-economic context (Wheeler & Sillanpaa, 1997).

18. Between 1972 and 1992, the amount of money spent on environmental protection in the USA tripled; more than $100 billion per annum is now spent on environment protection. Throughout the twentieth century, environmental laws and regulations have been enacted in every jurisdiction, and with increasing urgency. Also there are international treaties and protocols dealing with issues of global significance, for example, safeguarding the marine environment, protecting biodiversity and world’s threatened planet and animal species, combating ozone depletion and arresting global warming (Wheeler & Sillanpaa, 1997).

19. Given their quest for liquidity, of all the stakeholders in the modern industrial corporation, shareholders are the ones with the least stake in a particular company as an ongoing entity. This is so because, via the stock market, shareholders have the easiest conditions of exit compared to any other stakeholders. They are the last group that one would expect to provide the financial commitment that long-term investments require (Sullivan Mary, 1998).

20. For quite some time the brand value (or brand loyalty) has been recognised as a valuable but intangible asset for the companies. But with the new trends of establishing financial values of brands, and brand rankings, the importance of brand value for companies has increased in essence. For example, the brand values of Coca-Cola and Microsoft have been estimated as US$72.5 and US$70.2 billion receptively in the year 2000 (Financial Times, 2000). This trend has increased the focus given by companies to the issue of credible relationships they have with employees, customers, suppliers, and near by residents. The role of media, as a powerful tool to influence ‘company’ or ‘brand’ reputation has also increased substantially.

21. In today’s business world, the enterprises have risen to the level of trans-national corporations. Of the 100 largest corporations in the world today, 51 are global corporations. There are over 40,000 corporations whose activities transcend national boundaries. These companies with limited liabilities take risks, which is important for entrepreneurial behaviour; but also creates opportunities for fraud and abuse. Despite the notion of free trade and competition, historically, they have shown a tendency to aim for market dominance and monopoly via merger. Large corporations are amongst the most powerful economic influences on the planet. They have immense capacity for creating wealth and doing good; equally they have unlimited ability to abuse their economic power. This phenomenon persists in something of a policy vacuum (Roth William, 1999).

References:


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