

# The role of stakeholders in implementing corporate social and environmental responsibility

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## Abstract

The paper is dedicated to identifying the role of stakeholders in implementing social and environmental responsibility of a company. A list of key stakeholders for corporate social and environmental responsibility is provided in the paper. An organizational and economic system for corporate social and environmental responsibility is described in the paper. The system includes a number of elements: diagnostic block, block of implementing measures of social and environmental responsibility of business, and block of social and economic transformations.

The authors determined the interrelations in a system of implementing social and environmental responsibility of companies. Thus, a system of organizational and economic incentives for social and environmental responsibility of a firm is a cycle of mutual influence of corporate social and environmental responsibility and stakeholders.

**Keywords:** social and environmental responsibility, stakeholders, internal stakeholders, external stakeholders, shareholders, institutional transformations, organizational and economic measures, cross-sector partnership.

**JEL Classification:** L20, M14, O13, Q32

## Introduction

Nowadays when humanity have chosen its way to sustainable ecological and socio-economic development, a questions arises in what a way the approach can be implemented on practice. That's why the concept of social and environmental responsibility (meaning voluntary implementation of social and environmental programs by companies) becomes even more actual.

There are several different groups of stakeholders with different and in many cases contradictory interests that results in slowing down the process of transition to sustainable development. At the same time some groups of stakeholders can stimulate implementing of corporate social and environmental responsibility.

The purpose of this study is to determine the role of stakeholders and the interrelations in a system of implementing social and environmental responsibility of companies.

## Literature review

Papers by such scholars as Vinnikova T. [1], Gayevska M. [2], Gassij V. and Potravny I. [3], Grishnova O. [4], Kosyakova I. [7], Krupina N. [8], Paxomova N. and Richter K. [9], Pusenkova N. [11], Saldayeva M. [12] as well as Banerjee S. [14], Porter M. and Claas van der Linde [20], Schaefer A. and Harvey B. [21] are dedicated to corporate social and environmental responsibility.

Herewith, a defining role in implementing corporate social and environmental responsibility belongs to stakeholders.

Research by Freeman R.E. [15], Jurgensa M., Berthonb P., Papaniac L. and Shabbird H.A. [16] covers the essential questions of stakeholder theory.

The question of the role of stakeholders in addressing environmental issues was raised in the articles of the following researchers: K. Gibson [17], K. Long, Y. Wang, Y. Zhao, L. Chen [18], J. Pelozo, M. Looock, J. Cerruti ra M. Muyot [19], M. Suskevics, K. Tillemann, M. Külvik [22], H. Wang [23], etc.

Despite the existing research in this area, in our opinion, the question of the role of stakeholders in implementing social and environmental responsibility of business needs more precise investigation.

## Results

That is stakeholders who can affect the company and claim for corporate social and environmental responsibility. The reputation of the company will depend on the firm's reaction to stakeholders' request. Reputation of a company is a factor of competitive advantage in the market. On a way to sustainable development reputation of a company should consider an impact on the environment and implementation of social and environmental responsibility.

There are two different types of stakeholders – the internal and external ones. Internal stakeholders include employees, administrative staff and shareholders. Local community (including NGOs, media, educational establishments and people living nearby the company), authorities (including state and local authorities), consumers and firms-competitors are the groups of external stakeholders.

The roles of different groups of stakeholders differ greatly. The main conflict of interests exists between internal and external stakeholders. Internal stakeholders are interested in stable and profitable functioning of the company. External stakeholders have different roles and are mostly interested in socially useful and acceptable results. This creates a problem of combining cost-effectiveness and social and environmental responsibility of a company, which in turn causes some controversy in corporate management [13].

State authorities as well as local authorities are responsible for management of quality of environment. They can adjust the activity of a company towards implementation of social and environmental responsibility through a system of fines and restrictions as well as other economic, legal and administrative tools.

Consumers of goods and services, on one hand, are interested in having certified, safe and environmentally friendly products. They are also interested in enhancing the quality of the environment as their health and health of their children depends on that. On the other hand, consumers may suffer from the increased prices of products due to rising prices for high-quality and environmentally friendly resources as well as due to restrictive measures applied by the authorities.

Local community acts as so-called third party that is not directly related to a company, but feels negative impact of its activities. Members of local community are not directly involved into decision-making process regarding implementation of corporate social and environmental responsibility. In fact, local community is the final beneficiary of implementing corporate social and environmental responsibility. On one hand, advocating social and environmental responsibility, local community can also perform control in this question, on another hand.

Herewith company has to pay attention to the interaction with stakeholders and has to activate social and environmental initiatives.

Implementation of the principles of corporate social and environmental responsibility at the enterprise can be provided by developing organizational and economic support system. This system includes organizational and motivational components.

Organizational component includes such blocks as: diagnostic block and block of implementing measures of social and environmental responsibility of business.

The diagnostic block is aimed at the determining the current situation concerning social and environmental responsibility at the enterprise, the evaluation of potential of the enterprise concerning the implementation of measures of social and environmental responsibility and defining the strategies for social and environmental responsibility that are influenced by the level of social and environmental safety of the region where the enterprise is allocated.

At the same time, it should be noted that the current level of social and environmental responsibility of business is influenced by different kinds of stakeholders: both internal and external.

Internal stakeholders include enterprise's employees, administrative staff, and the owners - shareholders. At the same time, the shareholders are persons who invest in the enterprise by acquiring the shares of this business. Shareholders are interested in increasing the monetary valuation of the company, as it influences the

shareholders' dividends and the value of their shares. The existing level of social and environmental responsibility of businesses is influenced by administrative staff that makes decisions on the measures and programs of social and environmental responsibility, which will be implemented at the enterprise. In addition, there is the influence of employees who adhere to the established requirements and perform the set tasks. As for the shareholders, they are involved not in the performance of operational tasks but only in strategic planning, so they do not influence the current level of social and environmental responsibility of business.

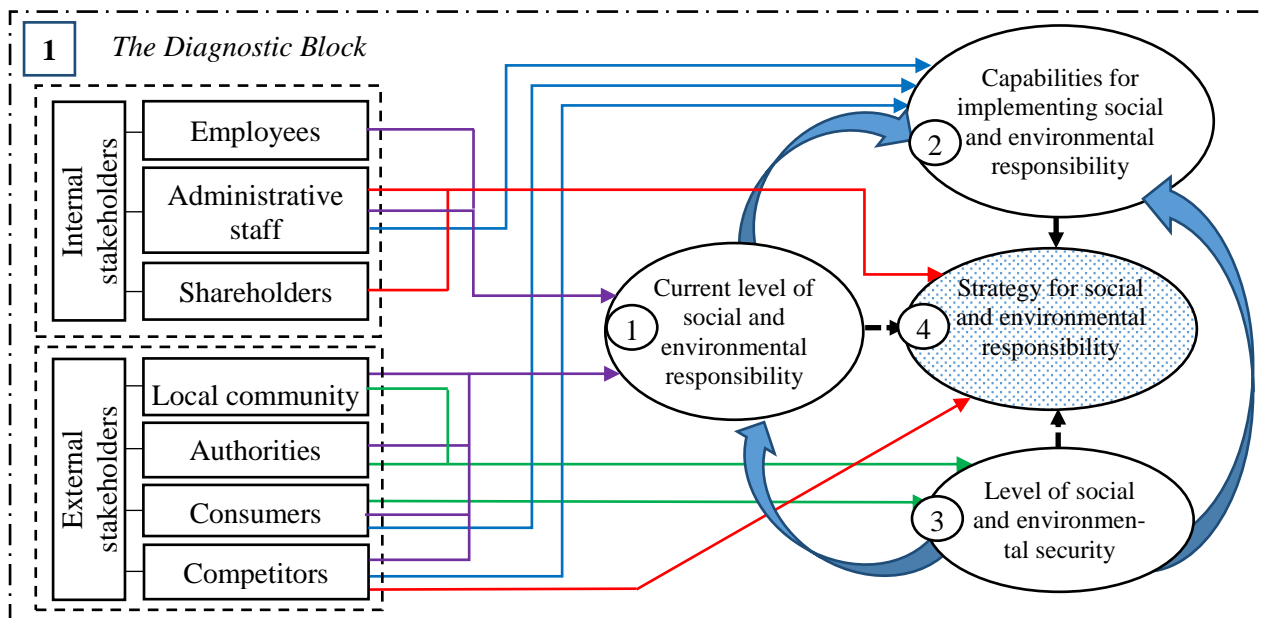


Figure 1. Diagnostic block of organizational and economic system for corporate social and environmental responsibility

Source: Proposed by the authors.

External stakeholders include local community (which among other things includes non-governmental organizations and mass media), local authorities and public authorities which form the “authorities”, block consumers and competing enterprises.

Among mentioned external stakeholders, authorities have the influence on the existing level of social and environmental responsibility of business through the system of environmental fees and fines for emissions and discharges above the norms. In addition, the local community has the power to influence the amount of hazardous and non-hazardous waste, recycled waste and emissions of pollutants into the air. For example, because of the rallies and protests, the local community can achieve the increase of recycled waste and the reduction of pollutants emissions by setting dust collectors at the enterprise.

Competitors and consumers can encourage the enterprise to increase research and development costs. Also, the activity of competing firms may encourage the enterprise to conduct additional training of employees and administrative staff.

Talking about the capabilities for the implementing social and environmental responsibility, it is necessary to mention a number of stakeholders, who have a significant influence on this aspect of enterprise activity. It is administrative staff of the enterprise among the internal stakeholders that defines what share of the investments will be aimed at social and environmental responsibility programs, and what share of the investments – at the development of social capital, etc. These aspects also are influenced by activity of competing firms as external stakeholders. Moreover, consumers have the right to require the presence of non-financial reporting of the enterprise and implementing social and environmental responsibility of business on an ongoing basis.

The level of social and environmental safety of the region is influenced by the authorities by setting up the requirements to the level of emissions and discharges of pollutants caused by industrial activity of the enterprise, as well as it is influenced by the local community, which has the right to require enterprise-polluter to comply with environmental standards. In this regard, there is an important role of consumers who need to

understand that when they choose to use regional products with eco-destructive production they reduce the level of social and environmental safety of the region.

All the above mentioned components allow to define the strategies for social and environmental responsibility. The internal stakeholders such as administrative staff, that makes decisions on perspectives for the firm's development, have a decisive influence on the strategy of social and environmental responsibility. Moreover, shareholders indirectly influence the choice of strategy by participation in corporate management.

The block of implementing measures of social and environmental responsibility of business is the next part of the organizational component of a system of social and environmental responsibility of business. At the same time, we distinguish block of implementing organizational and economic measures and block of institutional transformations.

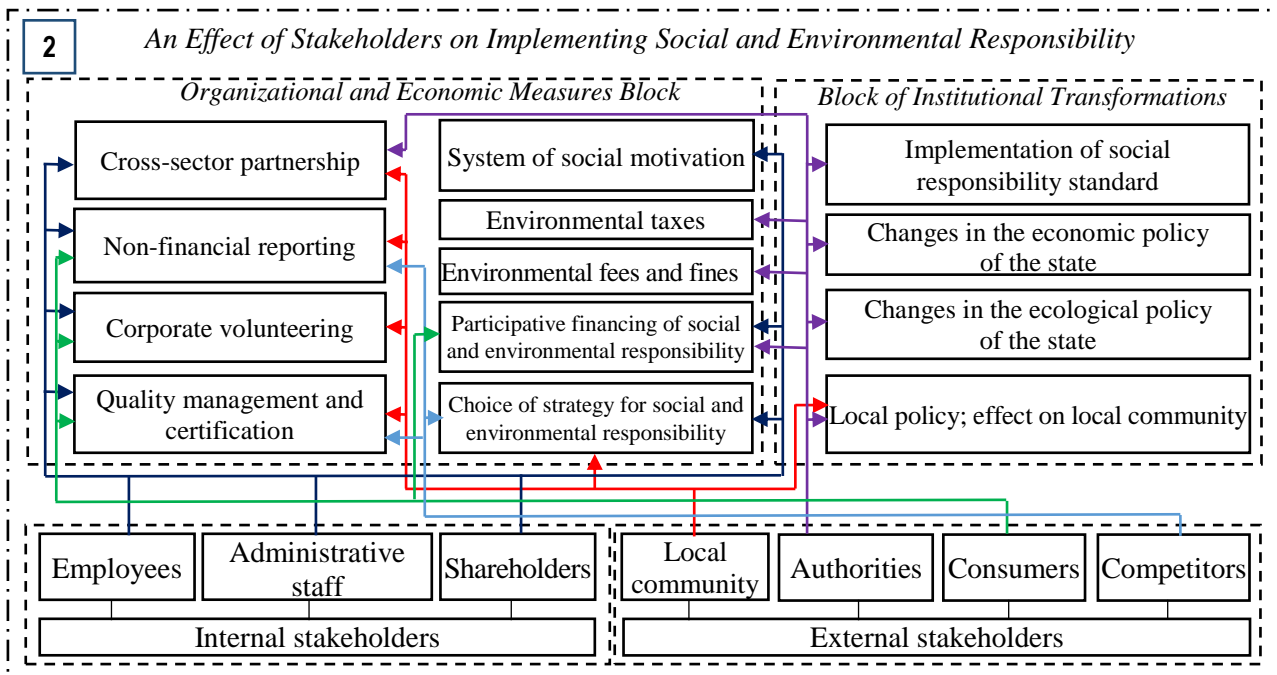


Figure 2 – Block of implementing measures of social and environmental responsibility of business

Source: Proposed by the authors.

Cross-sector partnership is the social partnership, elements of which are aggregated in three sectors: government, private (business sector) and the public (the third sector) [5].

At the same time, authors consider the cross-sector partnership as the most efficient form of organization of relations between the enterprise, authorities and the local community; as a set of relations between government authorities, local government bodies, on the one hand, and society and business, on the other hand, that determines their joint participation in solving important social and environmental problems, in particular by financing and implementing social, environmentally-oriented projects and programs. The basis of cross-sector partnership is the process of communication between its participants which should work closely and perform the following functions:

- creating conditions for other system components functioning;
- implementing mutual control;
- delegating the authority on social problems solving to the party that is able to fulfill them more effectively.

Incentives of such partnership are evident, as the consolidation of capacities and resources of representatives of each of the three sectors greatly increases the efficiency of implemented projects. The essence of cross-sector partnership consists in providing the efficient operation of all key participants.

This concept is wider than the concept of public and private partnership, because, in addition to the interaction between business and government in the cross-sector partnerships, the influence of community, as external stakeholders, plays an outstanding role. The business is presented by internal stakeholders.

Corporate volunteering is a voluntary participation of employees (at least two) in the implementation of various external social and environmental programs, projects and measures of the company that are supported and encouraged by the administration of the enterprise where they work. This activity is voluntary for the enterprise and is associated with the desire of employees and the administration of the enterprise to contribute to the society development. At the same time, we are not talking about any economic motives, any legislative requirements. The peculiarity of this type of volunteering is well-developed organizational structure, within which the subject acts, a sense of community and connection of the operational activities with the strategy chosen by enterprise [10].

The internal stakeholders, namely employees of the enterprise and administrative staff, which supports the employees and directly participate in the process, play a decisive role in the implementation of corporate volunteering as a form of voluntary organizational measure of social and environmental responsibility of business. The local community can indirectly influence the decisions of the enterprise on the participation in corporate volunteering (e.g., by mass media). The consumers can also influence by being interested in such facts as: if the enterprise participates in these activities or if the enterprise is socially responsible. The consumers can make decisions on buying that or another product taking into account the presence of social advertising.

Decision on the drawing up a non-financial report makes the enterprise's administration. This decision may be indirectly influenced by consumers who monitor the availability of non-financial information about the enterprise activity. Moreover, the availability of non-financial reporting or integrated report in competing firms encourages the enterprises to implement such reporting.

Implementation of quality management and certification at the enterprise must be carried out in accordance with the regulatory framework. The consumers are the catalyst for this process. The administration takes decision on the use of quality management and certification at the enterprise. Moreover, if the competing firm uses quality standards it thereby encourages the enterprise to do the same.

The enterprise administration makes the decision on social package. It is a set of social benefits and the additional benefits provided by the company to employees. Within the system of general remuneration, the social package is a tool of indirect material reward (cash payments are not provided to the employee but to a third party that provides the service) [6].

Participatory financing of measures of social and environmental responsibility of business provides the mechanism of partial financing of programs and measures of social and environmental responsibility of business due to the contribution from the community residents, consumers (for example, through the inclusion of additional costs in the price of the goods), local authorities and the enterprise itself. In addition, the international non-governmental organizations and foundations can participate in financing of these programs and measures.

As for the choice of strategic alternatives implementation of social and environmental responsibility of business, this choice is influenced by internal stakeholders, including shareholders, as well as external stakeholders such as local communities and competing firms, given with that the enterprise chooses a particular strategy for its further development.

Block of institutional transformations provides the changes in economic policy of the state, namely the implementation of tax benefits in case of the implementation of enterprise programs and measures of social and environmental responsibility. Also there is the need in the environmental policy of the state, when fines carry a warning function, and will not be too low and formal.

The standard of social responsibility has not been adopted in Ukraine yet, i.e., there is no legal framework that would regulate the issues of social and social and environmental responsibility of business at the state level. The block of institutional transformations is regulated by the government authorities, because these aspects are fixed at the state level.

In addition to mentioned components authors include to the block of institutional transformations the local policy that directly influences the local community. Also local policy is significantly influenced by community.

In terms of organizational and economic support of social and environmental responsibility of business the mechanism of mutual influence of stakeholders of different hierarchy level on the enterprise and the influence of enterprise on stakeholders, as well as the mechanism of their support, is important. The view of two-way influence of stakeholders allows to consider not only community, but also the enterprise itself to be the main beneficiary of the implementation of social and environmental responsibility. And it is not just about the indirect effects for the enterprise, but also about the direct economic effects. These effects may be in the form

of growth of savings due to good neighborly relations in community (due to the lack of black PR and unfair competition, the resolving the conflicts in mass media, reducing legal costs), customer base widening, and therefore sales volumes due to the growth of image, etc. In addition, the implementation of social and environmental responsibility can be the basis of the competitive advantages of the enterprise, as well as an element of barrier creation to entry the industry of other competing firms.

These components form the block of social and economic transformation of the enterprise that shows the economic component of the system of providing social and environmental responsibility of business.

Motivational (economic) component of the implementation of measures of social and environmental responsibility of business, as opposed to the traditional understanding of the advantages in the form of tax benefits, includes, in our opinion, the increase in the financial result of the enterprise. At the same time, we consider the social and environmental responsibility, not only as an ethical behavior in response to requests from external stakeholders, but as the investments flow, which has measuring payback period.

In addition, state policy, that is based on emphasizing the need for “donations” of the enterprise in the form of implementation of programs and measures of social and environmental responsibility of business, does not give the desired results, because not all enterprises carry out some measures of social and environmental responsibility now.

In our opinion, information campaign by the government and non-governmental organizations would be more effective, and it would prove the economic effectiveness of social and environmental responsibility of business, and which would highlight all kinds of effects from the implementation of such measures for the enterprise. In such case, the administration of enterprise could see that the financial resources, spent on measures of social and environmental responsibility, are not a loss, but an investment that pays back over time and brings positive effects.

It is necessary to note that there is the inverse effect of the implementation of social and environmental responsibility of business on both internal and external stakeholders.

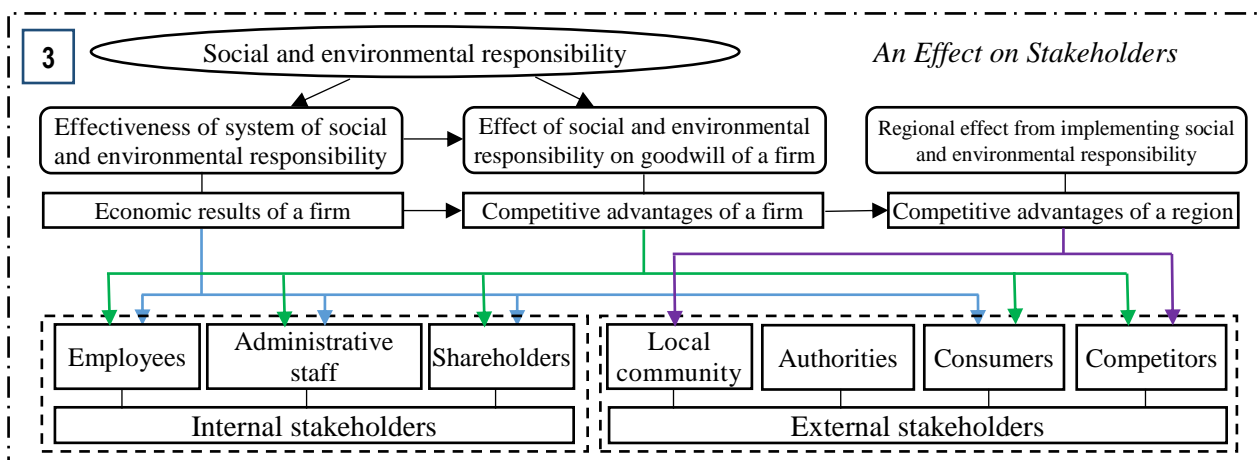


Figure 3. Block of social and economic transformations

Source: Proposed by the authors.

Thus, the economic results of the enterprise are reflected on the wages of the employees, the income of the shareholders and income of the managers, i.e., they directly influence the welfare of internal stakeholders.

The increase of goodwill, and thus the increase of the competitive advantages of the enterprise also influence the internal stakeholders, but at the same time it influences the competitors who may lose market share because of additional consumers, attracted by enterprise that implements social and environmental responsibility. Internal stakeholders benefit due to increase of sales and, accordingly, increase of the enterprise’s economic results that can affect the growth of internal stakeholders’ income.

Regional effect that is reflected at the increase of the competitive advantages of the region, influences the external stakeholders, first of all, the community, the goodwill of which is enhanced by the development of infrastructure and improvement of environmental residence conditions in the region.

Mentioned blocks of the organizational and economic support of system of corporate social and environmental responsibility are combined into an integral mechanism by direct and reverse relations that determine the directions and nature of the interactions within the system.

Thus, a system of organizational and economic incentives for social and environmental responsibility of a firm is a cycle of mutual influence of social and environmental responsibility and stakeholders.

Understanding of the interrelations in the organizational and economic support system of social and environmental responsibility of business will allow to use resources effectively for implementing social and environmental responsibility of enterprises.

## Conclusions and discussion

The authors provide theoretical base of organizational and economic provision for system of social and environmental responsibility of business which, in addition to the existing ones, defines stakeholders of different levels of the hierarchy that directly and indirectly affect the level of social and environmental responsibility and define the organizational and motivational mechanisms of its support.

An authorial approach was proposed in order to assess the social and economic efficiency of the social and environmental responsibility of an enterprise. The approach is based on the interrelation between the level of social and environmental responsibility, goodwill and financial results of the company and also considers an increase in the level of social and environmental security in the region.

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