Business Constituencies

Let’s focus on for-profit businesses and their constituencies. In the following table, for each constituency, we list social responsibilities for businesses to that constituency, business benefits from the relationship, and potential challenges and tensions that might surface. The responsibilities relate directly to socially responsible business practices.

**Business Organizations and Their Constituencies**

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We’ll look at each constituency in turn, beginning with employees. In today’s work world and the work world of the future, staying employable means continuing to develop new skills. The types of skills are shifting rapidly as new technologies emerge and work takes new shapes, for example, the use of electronic medical records in healthcare. By 2018, one projection (http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/FullReport.pdf) shows that about two-thirds of all U.S. employment will require some college education or better. What role does business play here? Is it a matter of just letting everyone fend for themselves or does the organization have a role to play? Enlightened and successful organizations support individual growth and development. By honoring this important ethical responsibility, businesses gain affiliation, strengthened contribution, and, therefore, productivity. Creating a place where people develop and prosper not only strengthens individuals, organizations, and communities, it is good business practice. Yet it doesn’t come without challenges and tensions. For example, creating sustainable employment through economic cycles is not easy; it likely means running lean at times, adjusting operations to handle profitability swings, and balancing permanent and contingent workforces. There is also the important issue of equitable compensation, which, has been sorely compromised in the United States by bloated compensation for those at senior levels.

This brings us to the next constituency, senior leaders, and, in turn, to corporate governance. When we look at current corporate governance, we are confronted with an uncomfortable reality: many governance structures primarily serve the interests of a few (those at senior organizational levels) at the expense of many (employees and shareholders). So we are challenged to ask
questions about governance and how to strengthen it. What do we mean by governance? The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) defines it this way—“the process of decision-making and the process by which decisions are implemented (or not implemented).” UNESCAP goes on to identify the characteristics of good governance as governance that is accountable, transparent, responsive, equitable and inclusive, effective and efficient, that follows the rule of law and is participatory and consensus-oriented. We see a blend of characteristics that show respect for individuals and allow all voices to be heard in decision making. These characteristics are equally applicable at the organization or community level. They can become criteria for assessing how well a particular governance structure is working. We can acknowledge the challenge of meeting these ideals. In corporate failures such as Enron, most, perhaps all, of these characteristics are violated. Other crises of organizational confidence may stem from violation of one or more characteristics. So a key social responsibility of organizations to senior leaders is to establish the right governance practices. Such practices mean that the rights of all parties are protected and that senior leaders can focus on the organization’s growth and stability.

Unfortunately, we have much to learn in this area as excessively high CEO compensation, divorced from both performance and average pay in organizations, has exposed the ruthlessness of some current approaches to corporate governance in the United States. Fortunately, we do have some good examples, like Jim Sinegal, CEO of Costco: “Having an individual who is making 100 or 200 or 300 times more than the average person on the floor is wrong.” Senior leaders are responsible for ensuring that businesses fully realize their long-term value contribution, namely, their social contribution. So a particular leadership challenge is integrating the needs of various constituencies, which can include both people in the organization and those outside.

This brings us to the next constituency: investors. Investors include owners of the organization—the shareholders, and those who lend money to it—the bondholders. Both groups provide resources for business growth. In generating financial returns to investors, businesses convert the work of many employees into economic value and then distribute it. In today’s interconnected financial world, some people are employees and, as investors, they are also part owners or lenders. So when businesses create value, they transfer that value in part through investment holdings into the broader community. However, this transfer is not evenly distributed; those in the top 10 percent of income in the United States own close to 80 percent of all stocks. If businesses only generate returns for shareholders, they exacerbate already large inequities. Therefore businesses also need to address other aspects of social responsibility. And in doing this, one challenge they may face is balancing long- and short-term gains, for example, giving up some profit today for future gain. Other aspects of social responsibility may include strengthening surrounding communities by supporting education programs in skill areas that will be needed for the future. This brings us to community members, our next constituency.

Businesses’ social responsibility to community members is to provide services or products, employment, and investment returns, while respecting the environment. Businesses share some of the value they create with the community, directly by compensating employees, and indirectly by not only addressing community needs with services and products, but also generating returns on investment holdings. Social responsibility includes sustaining these activities over time,
supporting employment practices that meet people’s financial and work/life needs, and using business practices that honor legal, ethical, and environmental considerations. In turn, businesses benefit from community infrastructure in areas such as transportation, education, and communication. Exchange with the community can involve purchase of services from other organizations or tax payments to the public sector in support of the common good. All these factors underline the reasons the social responsibility of business is important: community prosperity is strongly linked to business success, and business success is dependent on vibrant communities. Potential challenges comprise ensuring that operating practices protect the environment, and managing resources effectively such as limiting pay inequities as we described earlier, so that all employees receive a living wage. Operating practices also include paying attention to relationships with suppliers, our next constituency.

The social responsibility of businesses to suppliers includes selecting suppliers with ethical operating practices, explaining needs well, and honoring commitments. Accordingly, suppliers grow stronger so that they, in turn, can operate in a socially responsible manner. In return, businesses seek needed products and services at competitive prices, while meeting quality requirements.

Similarly, businesses must meet the requirements of their customers, the next constituency. This means keeping commitments and flexing with changing customer needs. Customers are integral to the value creation process through their purchases, which generate cash flow used to fund operations and provide benefits to other constituencies. Customers are also central to learning and collaborating around changing market needs. Social responsibility includes a willingness to stop serving customers who violate ethical employment or operating practices, for example, environmental requirements. Potential pressures include financial and pricing issues.

This brings us to the final constituency: partners. Partners can include a wide range of organizations: nonprofits, public-sector groups, or other firms that may offer complementary services or products appealing to customers; they may also include those that offer access to different geographic regions. Social responsibility includes selecting partners that share values, and honoring commitments to those partners. Businesses benefit by receiving support. A potential challenge is that the objectives of partners, which may be closely aligned at the start of a relationship, may diverge over time. For example, if one organization is focused on growth through reinvestment and the other is focused on short-term profits, it may be necessary to redefine or terminate the partnership.

Firms and their constituencies then are interwoven by a combination of giving and receiving, with social responsibility central to these relationships. It is in recognizing and developing such relationships, and honoring principles of social responsibility that firms can prosper, while helping to create a better world.

Parts of this article are extracted from *Business Behaving Well: Social Responsibility, from Learning to Doing*, 2013, Edited by Ron Elsdon, Dulles: Potomac Books, Inc.