Financial Services Sector – Social Responsibility Facilitator - Training Material

Unit 2: The role of Internal and External Stakeholders (2 ECVET)

Unit Description:

Banks and other financial services institutions affect a large number and variety of people. One can consider both internal and external stakeholders. This includes the owners, officers, employees, borrowers, depositors, government and communities. Hence it is important that the *'social responsibility facilitator'* understands the role/function of such stakeholders.

This unit will therefore introduce learners to the different internal and external stakeholders, elements that should be included in stakeholders' dialogues and how to deal with issues related to social responsibility.

Learning Outcomes:

On completion of this unit the learner will be able to :

1. Use stakeholder analysis to Identify individuals or organisations that are impacted by or can contribute to organisation's CSR measures.

2. Analyse the role of internal and external stakeholders within the context of Social Responsibility

1. Use stakeholder analysis to Identify individuals or organisations that are impacted by or can contribute to organisation's CSR measures.

Every organisation has its stakeholders, whether it is profit making or non-profit making entity. They are the one, who influence and can be influenced by the company's activities. They are classified into two categories, **Internal Stakeholders** and **External Stakeholders**.

Internal Stakeholders

Internal stakeholder, also known as primary stakeholders, are those people who are already committed to working for the needs of the organisation as they work for the organisation. These could include:

- Board members or former board members
- Staff members or former staff members
- Managers
- Executives

- Stockholders
- Donors

Internal Stakeholders are dedicated in providing services to the company. Their interest to the success of the organisation lies with the fact that they might be rewarded accordingly. This interest might change from one stakeholder to another according to their own personal agenda. For example an employee would be more concerned about his own job security whereas the owner would care more about profitability and business growth. Doing what is best for one group might not be beneficial for another, and there is where ethical judgement comes into play.

One thing that makes internal stakeholders particularly important is that the perceived success of your project [business/strategy/department] is often judged by the perceived satisfaction of internal stakeholders. (Heerkens, 2013)

Source: Heerkens, G (2013). Project Management, 2nd Edition, [e-book] McGraw-Hill Education.

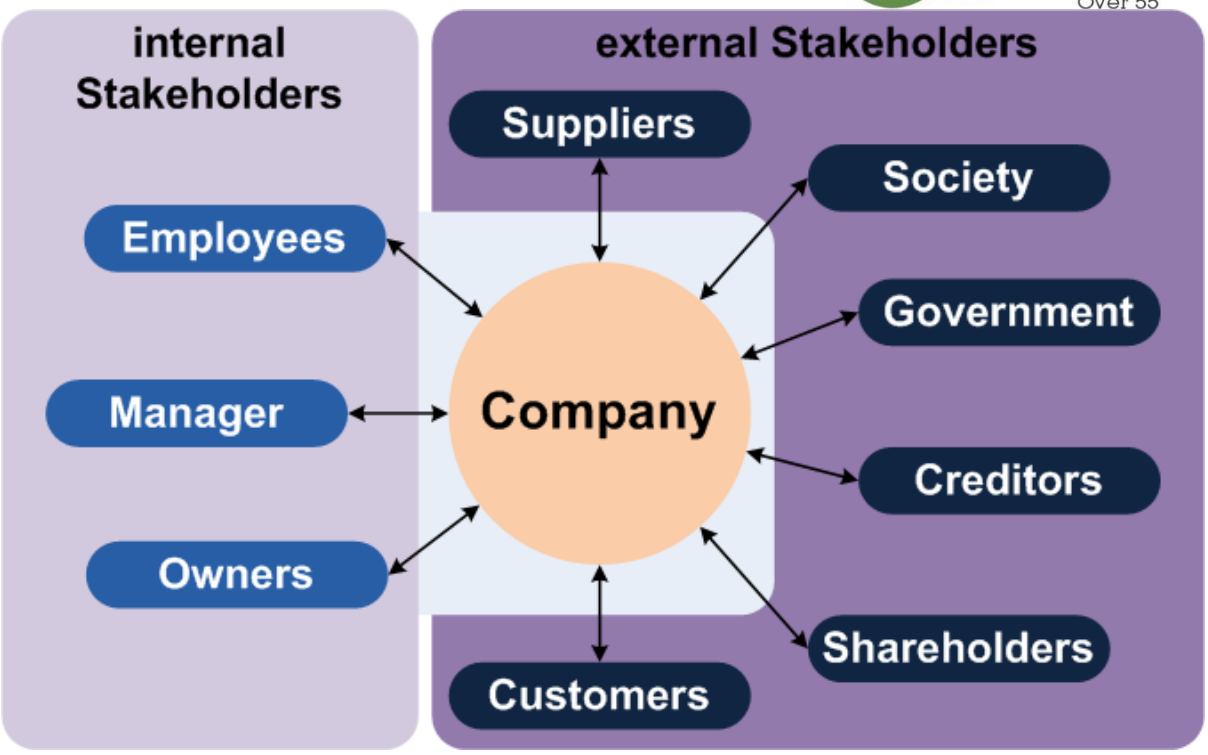
External Stakeholders

External Stakeholders, also known as secondary stakeholders, are those people who are not part of the management and do not work within that organisation itself but are effected by its performance and are influenced by the organisation's work. They are the outside parties that do not participate in the day to day activities of the entity, but instead form part of the business environment. These could include:

- Clients
- Community partners
- Leaders of non-profit, private or public sector groups
- Suppliers
- Government
- Investors
- Regulators

Likewise the organisation can also be affected by the actions of the external stakeholders. Without their support the organisation can cease to exist. For example customers would want the organisation to provide high-end goods at low cost. If the organisation fails to do so then customers would not buy their goods/services and the organisation would close down.

Businesses are increasingly aware of the need to maintain a positive reputation in the marketplace, and this may require a more inclusive approach to stakeholder management, which recognises the legitimate needs and concerns of wider, external stakeholders.



This diagram describes a company's typical stakeholders, both internal and external.

Source: https://www.boundless.com/management/textbooks/boundless-management-textbook/ethics-in-business-13/business-stakeholders-96/internal-stakeholders-451-7622/

The stages to support stakeholder analysis

Stakeholder analysis is primarily used to identify the individuals who are likely to affect or be affected by a particular action. It is also a tool to classify the impact that the action will have on different stakeholders. The latter are often identified and selected on an ad hoc basis. This has the potential to marginalise important groups, bias results and jeopardise long-term viability and support for the process. For this reason, interest is growing in a collection of methods that can be used for stakeholder analysis.

Stakeholder analysis is frequently used during the preparation phase of a project to assess the attitudes of the stakeholders regarding the potential changes. It increases the project manager's ability to anticipate opportunities and problems for the project at a time when the project team still has time and opportunity for planning and amending where necessary. Stakeholder analysis is often carried out front end. Stakeholder analysis a vital tool for strategic managers. The term stakeholder analysis encompasses a range of different methodologies for analysing stakeholder interests and is not a single tool.

''Effective project managers require keen analytical and intuitive skills to identify stakeholders and work with them to understand their expectations and influence upon project success. This facilitates managing a process that maximises stakeholder positive input and minimises any potential detrimental impact''

Source: Bourne L, Walker DHT. Visualising and mapping stakeholder influence. Manage Decis 2005;43(5):649–60

Generally, stakeholder analysis focuses on two key elements - groups or actors are analysed in terms of:

a) the interest they take in a particular issue and,

b) the quantity and types of resources they can mobilize to affect outcomes regarding that issue

The findings from the stakeholder analysis should make the project manager capable of determining how much and what kind of attention each stakeholder should get and subsequently how to interact with each stakeholder for better results. Also, the findings constitute a basis for decisions, objectives and plans for the project. Stakeholder analysis in projects requires the following activities:

1. Identification of the (important) stakeholders.
2. Characterization of the stakeholders pointing out their
   (a) needed contributions,
   (b) expectations concerning rewards for contributions,
   (c) power in relation to the project.
3. Decision about which strategy to use to influence each stakeholder.

Much of the stakeholder analysis literature has presumed that stakeholders are self-evident and self-construed, and has focused on categorising pre-identified stakeholders to understand their interests and relationships. However, before this can be done, it is necessary to identify who holds a stake in the phenomenon under investigation. This in itself necessitates a clear understanding of the issue under investigation so that the boundaries of the social and ecological phenomenon can be established.

Identifying stakeholders is usually an iterative process, during which additional stakeholders are added as the analysis continues, for example, using expert opinion, focus groups, semi-structured interviews, snow-ball sampling, or a combination of these. Each stakeholder involved in the analysis supposedly has a stake in the

phenomenon under investigation. Nevertheless, a key problem lies in deciding whether the phenomenon under investigation should dictate which stakeholders are involved, or whether it should be the other way around. This problem is rarely considered in stakeholder analyses, possibly due to the difficult dialectic between identifying stakeholders and identifying which aspect of an organisation's activities, which intervention, or which issue to focus on. However, without knowing the issue, it is difficult to know which stakeholders should be involved in identifying the focus. As a result, the focus is typically identified in a top-down manner by the team leading the stakeholder analysis and may therefore reflect their interests and biases, which might not reflect the interests of stakeholders

Even though performing a stakeholder analysis might be challenging, a pro-active project manager should see the analysis not only as resource demanding activity, but as an ongoing learning process and an opportunity to engage in dialogue with the stakeholders to take their thoughts regarding the project into consideration at an early stage. By choosing this perspective on stakeholder management a stakeholder analysis can make a great contribution to the success of a project.

Identifying and mapping, internal and external stakeholders

Stakeholder Engagement is the process of effectively eliciting stakeholders' views on their relationship with the organisation/programme/project (Friedman and Miles 2006).

Source: Friedman, L. and Miles, S. (2006) *Stakeholders Theory and Practice* Oxford University Press

As public participation has become increasingly embedded in the success/failure of an organisation, it has become ever more crucial for Managers to understand who is affected by the decisions and actions the organisation takes. Organisations have realised that stakeholder engagement is not about giving the public a list of options to choose from but it is about drawing them in right from the start, so that their views, needs and ideas shape the ideas, goods and services it offers.

As already discussed stakeholder analysis is one of the technique to help identify which individuals or organisations to include in the project. One of the stages that help achieve a good analysis is that of identifying and mapping both internal and external stakeholders. The stakeholder mapping is the start of any stakeholder engagement.

Source: http://gsvc.org/wp-content/uploads/2014/11/Stakeholders-Identification-and-Mapping.pdf

Stakeholder mapping is a collaborative process of research, debate, and discussion that draws from multiple perspectives to determine a key list of stakeholders across the entire stakeholder spectrum.

Stakeholder mapping identifies the target groups and pulls together as much information as possible about them. Stakeholders are by definition people who have a stake in the situation and can be both external and internal. In the development of strategies, programmes and projects may well be undertaken on a cross-boundary, interdisciplinary way. That is both internal and external stakeholders would need to participate. For example:

- **Internal stakeholders** who participate in the co-ordination and implementation of projects, goods or services.

- **External stakeholders** who are engaged in contributing their views and experiences in addressing the issues that are important to them as customers.

The following questions are designed to reveal the stakes as well as help to identify the right people to involve in any particular situation.

- Who is or will be affected, positively or negatively, by what you are doing or proposing to do?
- Who holds official positions relevant to what you are doing?
- Who runs organisations with relevant interests?
- Who has been involved in any similar situations in the past?
- Whose names come up regularly when you are discussing this subject?

Stakeholder mapping can be broken down into four phases:

1. Identifying: listing relevant groups, organizations, and people

2. Analysing: understanding stakeholder perspectives and interests

3. Mapping: visualizing relationships to objectives and other stakeholders

4. Prioritising: ranking stakeholder relevance and identifying issues

1. Identifying

The list of stakeholders will depend on the type of business, its impacts, and the current engagement objectives of the organisation. This list will change as the environment around and within the organisation evolves and as stakeholders themselves make decisions or change their opinions.

2. Analysing

Once the list of stakeholders has been identified, it is useful to do further analysis to better understand their relevance and the perspective they offer, to understand their relationship to the issue and each other, and to prioritize based on their relative usefulness for this engagement. Some criteria to help you analyse each identified stakeholder:

• **Contribution (value):** Does the stakeholder have information, counsel, or expertise on the issue that could be helpful to the organisation?

• **Legitimacy:** How legitimate is the stakeholder's claim for engagement?

• **Willingness to engage:** How willing is the stakeholder to engage?

• **Influence:** How much influence does the stakeholder have on the organistaion?

• **Necessity of involvement:** Is this someone who could derail or delegitimize the process if they were not included in the engagement?

3. Mapping

Mapping stakeholders is a visual exercise and analysis tool that you can use to further determine which stakeholders are most useful to engage with. Mapping allows the organisation to see where stakeholders stand

when evaluated by the same key criteria and compared to each other and helps it visualize the often complex interplay of issues and relationships.

In order to create a good mapping system one needs to draw a mapping as follows to identify the key stakeholders.

1. Draw a quadrant using two axes labelled “Low” to “High.”

2. Add “Expertise,” “Willingness,” and “Value” to the criteria chart, as above.

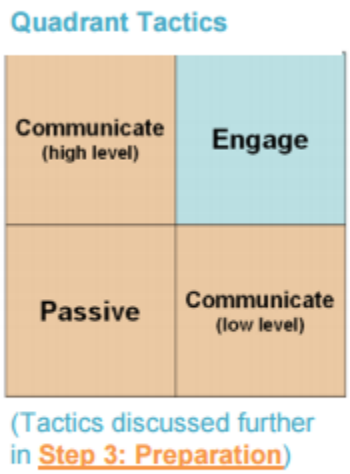
3. Assign “Expertise” to the Y-axis and “Willingness” to the X-axis

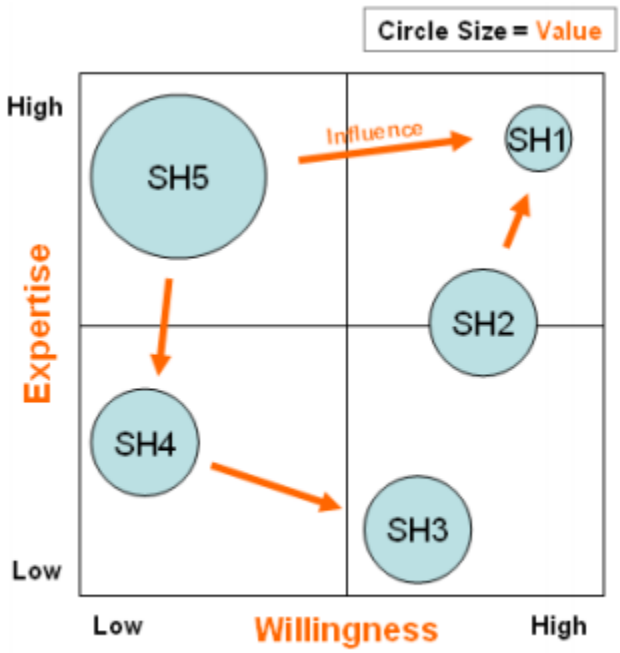
4. Discuss and debate where each stakeholder falls.

5. Plot the stakeholders on the grid.

6. Use small, medium, and large circle sizes to denote their “Value.”

7. To illustrate relationships, use arrows to depict “Influence.” Consider quadrants, circle size, and influence arrows when prioritizing.





Source: http://gsvc.org/wp-content/uploads/2014/11/Stakeholders-Identification-and-Mapping.pdf

4. Prioritising

It is not practical and usually not necessary to engage with all stakeholder groups with the same level of intensity all of the time. Being strategic and clear about whom the organisation is engaging with and why, before jumping in, can help save both time and money. The organisation needs to look closely at stakeholder issues and decide whether they are material to the organisation's engagement objectives by asking the following questions:

- What are the issues for these priority stakeholders?
- Which issues do all stakeholders most frequently express?
- Are the real issues apparent and relevant to our engagement objectives?

2. Analyse the role of internal and external stakeholders within the context of Social Responsibly

Issues for stakeholders: return on investment (RoI), conflicts between needs of the organisation and those of stakeholders, socially responsible investments.

Return on investment

The end goal is return on investment (ROI) for all stakeholders. After all, the objective of the new product development process is to turn ideas into money. ROI comes in the form of increased shareholder value, new products and new features — everyone wins, including the employees, the customers and the stakeholders. So to move the organisation forward and stimulate profitable growth, it's important that every member of the organization is given the proper motivation.

In "Robert's Rules of Innovation," net result and reward is about motivating your people with the right incentives. Motivation does not necessarily mean rewarding with money, and quite frankly it is about **recognition** for a job well done. These non-financial rewards can benefit an organization by increasing an employee's loyalty and commitment to the company, boosting company morale and reinforcing ideal outcomes in the future. Motivating employees to reach their top performance is a win-win situation for everyone involved and equates to Innovation ROI.

Social Return on Investment (SROI) is a systematic way of incorporating social, environmental, economic and other values into decision-making processes. By helping reveal the economic value of social and environmental outcomes it creates a holistic perspective on whether a development project or social business or enterprise is beneficial and profitable. The aspect of stakeholder perspectives is essential in the SROI approach. It is precisely the value perspectives of the stakeholders (and most importantly the key beneficiaries), assessed, not by assuming these values, but by thoughtfully and intellectually engaging the stakeholders themselves, which is at the heart of this innovative (e)valuation approach.

SROI balances proving and improving or addresses the paradox between accountability and learning by placing the perspectives of the different stakeholders at the centre of the valuation process.

Conflicts between needs of the organisation and those of stakeholders

It is important for an organisation to balance the interest of its various stakeholders. Different stakeholder groups have different priorities, for example:

- Shareholders expect the organisation to make a profit and receive a return on their investment.
- Employees require good working conditions if they are to be retained.
- Investors may want to see evidence of how an organisation responds to environmental issues before committing money to the business.

Stakeholder conflict arises when the needs of some stakeholder groups compromise the expectations of others. The organisation has to make choices which some stakeholders might not like.

The following are some points to take into consideration as a stakeholder manager:

1. Establish and *make known your integrity in relation to your role* in the project management team.

2. Establish and make known the significance of your role in a project undertaking.

3. Make a written report of any known conflicting proposal that can affect the potential outcome of a project, through proper channels, beginning with your immediate superior.

4. Examine the company policies and procedures on how the issue should be reported.

Socially responsible investments

SRI is an investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts.

There are two main goals of SRI; social impact and financial gain. The two do not necessarily go hand in hand; just because an investment touts itself as socially responsible doesn't mean that it will provide investors with a good return. An investor must still assess the financial outlook of the investment. The idea is that organisations

should balance profit-making activities with activities that benefit society; it involves developing businesses with a positive relationship to the society in which they operate.

Social responsibility means that individuals and companies have a duty to act in the best interests of their environments and society as a whole. Social responsibility as it applies to business is known as corporate social responsibility (CSR).

Importance of Stakeholder Dialogue and creation of value relationships

The aim of having good communication with stakeholders is to help both them and the organisation itself prosper and become the best. This provides the foundations for the organisation's relationships with its employees, customers, shareholders and communities, and help it understand and meet their expectations. This all depends on the organisation's ability to create loyalty and trust, thus building a good relationship with both its internal and external stakeholders. This requires to understand the expectations of all its stakeholders and evaluate and consider these in all its plans and actions.

Case study: Banco Santander's communication channels with its stakeholders

Key dialogue channels for stakeholders

Stakeholders	Main dialogue channels	Performance figures
Employees	Employee engagement survey	84% participation. 75% of employees committed to the Bank
	Santander Ideas	More than 13,000 ideas presented since 2014
	Whistleblowing channel	621 complaints received
Customers	Commercial channels	500 dialogue moments identified (business intelligence)
	Satisfaction surveys	86.6% satisfaction among active retail and commercial customers
	Claims and complaints	221,590 claims received in the main geographic areas
Shareholders	Annual General Meeting	2,624 shareholders in attendance
	Shareholder services	306,694 questions, e-mails and letters dealt with
	Investor day, roadshows and other meetings	450 events held
Communities	Collaborations with NGOs, universities and other institutions	1,229 agreements with universities and academic institutions
		7,125 collaborators with NGOs and social institutions
	Social networks	208 profiles and 8.39 million followers

Source: http://www.santanderannualreport.com/2015/en/sustainability-report/dialogue-and-value-creation-stakeholders.html

Banco Santander and its commitment to sustainable development

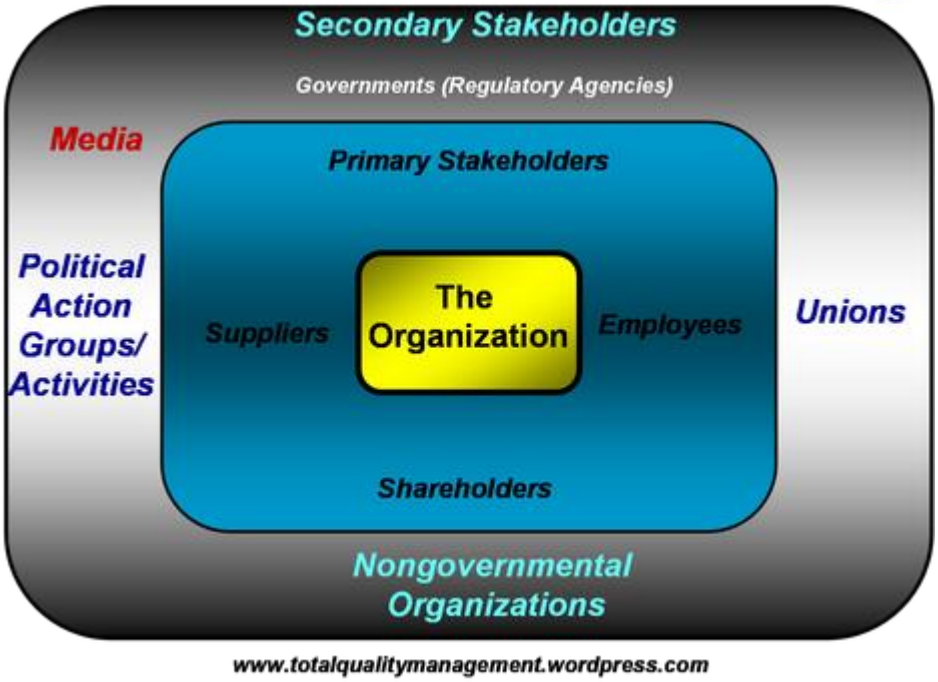
Source: http://www.santanderannualreport.com/2015/en/sustainability-report/dialogue-and-value-creation-stakeholders.html

Internal and external stakeholders as active contributors to social responsibility

To accomplish CSR, effective management requires the appropriate balance between an orientation toward owner/shareholders, and employee stakeholders, customer stakeholders, and community stakeholders. To make society "good" becomes a reality only when this high expectation "becomes the aspiration and preoccupation of management"

Source: http://www.instituteforpr.org/corporate-social-responsibility/

The stakeholders form the basis of success and failure of the business and its social responsibility activities. In order to serve their stakeholders in an ethical and social manner, more and more organizations are adapting the model of corporate social responsibility. The term Corporate Social Responsibility goes by many other terms such as corporate citizenship, responsible business or simply corporate responsibility.



Meeting stakeholder expectations is a vital part of achieving the legitimacy needed to operate. The narrow the gap between organizational performance and the expectations of myriad stakeholders the better the relationship between the two groups. When firms' operations offend stakeholder expectations, legitimacy gaps motivate stakeholders to correct those operations. Such logic applies not only to the private sector, but also to non-profit organizations and government agencies.

Companies should meet or exceed stakeholder expectations of performance standards needed to satisfy the moral rectitude that business contributes to the long-term business climate by collaborative decision making and operating in the public interest.

In such matters, CSR might be defined as corporate strategic philanthropy, even narrowed to "effective public relations" where images are massaged by wordsmiths who tout the excellence of the organization and build accommodating relationships with stakeholders. It can be viewed as cause-related marketing. At best, it can be conceived of as knowing, achieving, and communicating about higher standards of performance in the public or community interest.

Maintaining the appropriate boundaries

In order to get the most out of the organisation's stakeholder relationships, you have to have the right approach. Don't look at it as "us against them". The organisation needs to foster relationships and create a cohesive union. The following are some key points an organisation needs to keep in mind:

1. Stakeholder management requires a collaborative approach

Identify the organisation's stakeholders and get to know the people who are directly involved with your business. Let them know exactly who you are - your corporate culture, your mission and your ethics. Ideally you build relationships with like-minded individuals and companies. Fostering good business relationships through collaboration helps your organisation to grow.

2. Prioritize but respect all entities

Unfortunate but true, some people and companies are more valuable to the organisation but you should still treat all entities who work for you or are involved with your company, with empathy. You have a duty to protect the information of all parties, whether that person is an employee or your biggest client. That means ensuring that all information that passes between you is protected and saved in a secure content management system.

3. Discover their needs and fulfil them

Whether you are a member of a business organisation that promotes your industry, or are working with a government agency on compliance issues, you have to have a clear outline of what it is that they are looking for and find a way to meet those needs. This requires clear communication.

4. Manage and meet expectations

While some stakeholders may have more say in your company, others are more casual relationships. You need to define boundaries. You have expectations too, and you should develop a rapport where you can discuss this give and take relationship and make it a fruitful one. You should be transparent.

5. Engage

Make it easy and safe for your stakeholders to communicate with you. Always respond in a timely manner. The Internet is a collaborative tool. Use it wisely.

Importance of ethics

"If you don't have honesty and integrity, you won't be able to develop effective relationships with any of your stakeholders." (Robert W. Lane, the Chairman and CEO of Deere & Compan)

Source: https://totalqualitymanagement.wordpress.com/2009/03/12/stakeholders-and-corporate-social-responsibility/

When an organization builds ethical and social elements in its operating philosophy and integrate them in its business model, it is said to have possessed a self-regulating mechanism that guides, monitor and ensure its adherence to law, ethics, and norms in carrying out business activities that ensures the serving the interest of all external and internal stakeholders. In other words, the objective of being socially responsible business is achieved when its activities meet or exceed the expectations of all its stakeholders.

Ethical responsibility include behaviour that is not necessarily codified into law and may not serve the organization's direct economic interests. To be ethical, organization's decision makers should act with equity, fairness and impartiality, respect the rights of individuals, and provide different treatments of individual only when differences between them are relevant to the organization's goals and tasks. **Unethical** behaviour occurs when decisions enable an individual or organization to gain expense of society.

The following is a model for evaluating an organization's social performance. The model indicates that total corporate social responsibility can be subdivided into four criteria-economic, legal, ethical and discretionary responsibilities. These responsibilities are ordered from bottom to top in the following illustration.

www.totalqualitymanagement.wordpress.com

The social responsibility facilitator's role in relation to stakeholders

For most of the projects the role of the project manager is one of integrator, communicator, and facilitator. The project manager is the ultimate person accountable for the project. S/he is the one whose job it is to make sure the project is done, and would be the principal contact person for the donor, beneficiaries and the key stakeholders. As responsible for the project he/she needs to make key decisions regarding the management of the resources available to the project, and to do that the organization's senior management needs to appoint the project manager, and give him/her the appropriate level of responsibility and authority for project direction and control.

The facilitator acts as an individual who enables the project team to work more effectively; helps them collaborate and achieve synergy. The project manager is not responsible to do all the tasks of the project, that is the responsibility of the project team, the project manager role is to create the right conditions that enable the project team to carry their duties.

Being embedded in and central to a network of stakeholder relationships a facilitator is key in engaging stakeholders, in co-opting them to realize a mutually desirable vision and in connecting them for the purpose of responsible change – thereby bridging potential structural holes.

The project manager also contributes by providing the framework to facilitate the interactions among the different groups so that they are able to function effectively. The goal of this role is to support the project team and the beneficiaries so that they can achieve exceptional performance. The project manager encourages full participation from the project team, promotes mutual understanding with the beneficiaries and cultivates shared responsibility among all project stakeholders.

The facilitator role is mostly used when dealing with beneficiaries, since the project manager doesn't have any form of authority over this group he must provide an environment of trust where beneficiaries feel comfortable about contributing ideas and provide input to the project and discover the solutions that can help achieve the projects objectives.