MAGNUS YOUTH LEAGUE – A CASE STUDY FOR SOCIAL RESPONSIBILITY AND APPLICATION OF STAKEHOLDER THEORY

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CASE DESCRIPTION

This case is well-suited to an introductory-level management class where curriculum includes concepts of stakeholder theory and corporate social responsibility. In addition, this case would be relevant for public administration courses or first year graduate students pursuing a Master of Public Administration degree since it addresses nonprofit organizations and social responsibility. The primary subject matter for this case concerns identifying stakeholders, their various needs and expectations from a nonprofit organization, and the application of social responsibility in the nonprofit sector. Secondary issues include nonprofit funding and volunteer recruitment. This case imposes the Corporate Social Responsibility (CSR) framework onto a nonprofit scenario, highlighting the need to deliver multiple outcomes for the varied stakeholder group expectations.

This case has a difficulty level of three-four (junior-senior level) and is designed to be taught in less than two class hours with less than two hours of outside preparation time by students.

CASE SYNOPSIS

There is a growing demand for organizations to conduct their business in an ethical manner. Many corporations fall short of this mission, but there is a growing demand for the application of Corporate Social Responsibility (CSR) to their core business practices. Many believe that CSR can only be applied to the for-profit sector, but in reality, is applies to all forms of organizations including government entities, service providers, for-profit and nonprofit organizations. Recognition of stakeholders is key in developing business strategies that aspire to adopt CSR principles.

Students will be presented with background information on Magnus Youth League, a nonprofit which offers a variety of youth sports programs for the Malheur County in Oregon. Bernie Macgruber, the new Executive Director for Magnus, faces the daunting task of revitalizing this nonprofit to deliver much needed direction and mentoring for the youth in this community.

INTRODUCTION

Bernie Macgruber leaned back in the rickety chair and propped his feet up onto the ancient wooden desk, hands clasped behind his head. “What a mess,” he said aloud. The sun was just setting outside the window next to him, and he was beyond tired. When he had driven up to the Magnus Youth League office this morning and saw the line of parents and kids stretching out the front door and around the block, his first thought was that business was good. He was even a little

excited. Obviously, there would be no shortage of kids to participate in the flag football program beginning next month! That impression changed when he approached the group and entered the small and very crowded office space. Two clerks behind the counter were talking with parents and writing on their clipboards. Two others moved between the front counter and the piles of dilapidated helmets, shoulder pads, and jerseys that lined the back wall. Their frustration was obvious as they called out to each other across the chatter in the tiny room.

This was Bernie's first day as Executive Director of Magnus Youth League, a program offering a variety of sports programs for kids aged 5-12 in Ontario, Oregon and neighboring communities. He knew from the Magnus advisory board that parents and coaches were frustrated, too. Certainly, the parents he'd seen this morning had not been happy, waiting in line out in the hot sun. No wonder Magnus' support had been on the decline. It was clear to Bernie that things needed to change, and fast.

MAGNUS YOUTH LEAGUE

Founded in 2003, Magnus Youth League (Magnus) had garnered substantial community support over the last decade, largely due to the variety of youth sports training programs offered and effective community relationships with schools and area benefactors. Magnus served the communities in Malheur County, Oregon which includes the towns of Ontario, Nyssa, Vale and several others. The total population in Magnus' service area is approximately 20,000 residents, served by a dozen elementary schools. Malheur County is the most impoverished county in Oregon with an overall poverty rate of 25.2%. Ontario, the largest city in Malheur County, has a poverty rate of 35.2% (Poverty Rate, 2019).

Perhaps because the poverty rate is so high, the children in these small, largely agricultural communities are a source of concern, not only at the state and federal level but for large companies in the area and also for area benefactors. Nonprofit organizations such as Magnus, with a focus on developing skills and opportunities for Malheur County children, have been able to source operational funding from government grant programs and from private donations consistently over the last decade, although the availability of funds as of late has been considerably more constrained.

"Magnus" in Latin means "great." When Magnus Youth League was founded in 2003, its purpose was to develop greatness in the impoverished Malheur County youth. Magnus sports programs emphasize not only the development of athletic skills, but also character qualities like teamwork, integrity, and perseverance. The Magnus mission statement is simple: "Preparing Malheur youth for greatness in sports and in life."

Magnus ran four sports programs per year: football, baseball, basketball, and volleyball. The football program was co-ed, but enrolled primarily the boys. Volleyball was restricted to the girls. The baseball and basketball programs included both girl and boy teams. The Magnus teams competed against each other and with other youth teams across the Oregon/Idaho Treasure Valley area. Most of the coaches were farmers. They were good folks and great with the kids, but it was hard for them to make it to morning games because that's when they're tending crops. Usually, a parent could stand in for them, but not always. Children were transported to practices and games by their parents.

The Magnus advisory board had informed Bernie that funding had dwindled over the last several years. The organization continued to receive a state-funded grant which was enough to cover salaries and related overhead, and parents paid a modest enrollment fee of $25 per child per

sports program which had so far been enough to cover the office lease and utilities expenses. There had been precious little money to devote to new sports equipment in the last ten years. Even the team jerseys were returned at the end of each season to be reused.

Bernie reports to the Magnus advisory board, and they will determine whether or not he will continue in his Executive Director role after this probationary year. The eight-member Magnus advisory board included three prominent local farmers and the Ontario city mayor and the Malheur County fire chief. The other board members were high-level managers from large agribusiness companies in the area with expertise in finance, accounting and law. Their vision for Magnus Youth League was ambitious. These were important people in the Malheur County community, and they wanted the image and reputation for the Magnus program to be elevated to match other teams in the area, namely those in Boise, Idaho where communities had substantially more money to contribute. They had made it very clear to Bernie that he would be held accountable for major program improvements and team records that could stand up against other Treasure Valley teams. Bernie was starting to feel like he would have to be able to pull a rabbit out of the proverbial hat to satisfy them.

STAKEHOLDER THEORY

R. Edward Freeman first introduced the stakeholder theory in 1984. This concept shifts an organization's main objective of making money for its shareholders to a broader purpose of developing and fostering business relationships with those who have a "stake" or interest in the company and its overall success (Freeman, 1984). The stakeholders of an organization include employees, customers, suppliers, investors, and communities.

The stakeholder theory is based on the assumption that organizations want to conduct business with morals and values (Freeman, Wicks, & Parmar, 2004). This implies that leadership has an ethical component in every organizational decision made, especially when it involves managing stakeholder relationships (Harrison, Freeman, & Sá de Abreu, 2015). Stakeholder relationships should be fostered in a positive, effective manner by an organization. As a result, this will ultimately lead to economic value for an organization because the needs of the stakeholders were taken into consideration (Freeman, Wicks, Parmar, 2004).

The stakeholder theory provides leaders with tools to create value for the organization and its stakeholders (Freeman, et al., 2012). The two questions leaders need to ask themselves are: (1) What is the purpose of the organization? and (2) What responsibility does the organization have to its stakeholders? (Freeman, 1994) Regardless of the answers to these two questions, organizations must take into account the legitimate interests of individuals and groups that can or have the potential to affect their business (Donaldson and Preston, 1994; Freeman, 1994).

Stakeholders can be divided into two classifications: primary and secondary. Primary stakeholders are those who interact with an organization on a daily basis, such as employees, customers, and shareholders. This category also includes regulatory and governmental agencies as companies must comply with the laws generated by these groups. Primary stakeholders are essential to an organization's viability and include employees, customers, investors, and suppliers (Ferrell, Thorne, & Ferrell, 2016). Individuals and groups who do not engage in business transactions on a daily basis with an organization are considered secondary stakeholders (Clarkson, 1995). The media and special interest groups are two common types of secondary stakeholders (Ferrell, Thorne, & Ferrell, 2016).

The stakeholder theory also states that salience is given to a stakeholder based on one or more of the following three attributes: power, legitimacy, and urgency (Mitchell, et al., 1997). Power is defined by Pfeffer as, "a relationship among social actors which one social actor (A), can get another social actor (B) to do something that B would not have otherwise done" (Pfeffer, 1981). In other words, it is the extent that a stakeholder can influence an organization to get their desired outcome(s). According to Suchman, legitimacy is, "A generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995). Urgency can be defined as, "the degree to which stakeholder claims call for immediate attention" (Mitchell, et al., 1997). This means that urgent stakeholders have an important time sensitive claim that can be critical to the organization. The more of these three attributes a stakeholder possesses, the more significant and influential they are to an organization (Ferrell, Thorne, & Ferrell, 2016).

Since nonprofits are an important part of our society, especially when it comes to their economic impact on the communities they serve, it is important to look at how the stakeholder theory can apply to these organizations as well (Shea, et al., 2012). Just as for-profit organizations align their values and goals with their various stakeholders, nonprofits also tend to the different interests and diverse expectations of a myriad of stakeholders (Wellens & Jegers, 2014). Stakeholders of a nonprofit can include government, beneficiaries, private donors, board members, management, volunteers, and non-managerial staff members (Wellens & Jegers, 2014). For nonprofits to succeed, they must efficiently and effectively produce financial and social outcomes by utilizing their numerous stakeholders' knowledge, resources, and interests (Kaplan, 2001; Kushner & Poole, 1996; McHargue, 2003; Mottner & Ford, 2005; Ostrander, 2007; Seok-Eun, 2005; Speckbacher, 2003). It is important for a nonprofit to recognize that stakeholders will have different expected outcomes and, thus, a nonprofit will need to be able to deliver varied results for each of its stakeholder groups.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate social responsibility is a concept that became relevant to the business world after World War II (Carroll, 2015). The United States was evolving, and several social movements were making their mark on corporate America. Civil, women's, and consumer's rights, in addition to employee's safety and pressure for environmental protection emerged, which resulted in increasing demands on businesses (Carroll, 2015). Before these social movements, businesses believed they were only responsible for economic success for themselves and their shareholders. A byproduct of the social movements was society's growing expectations that forced businesses to accept more responsibility for their various stakeholders' needs and concerns.

There have been countless definitions of corporate social responsibility. In 1962, Milton Friedman stated in his book, *Capitalism and Freedom*, "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible" [p. 133]. Another approach was presented by Keith Davis who defined CSR as, "the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social [and environmental] benefits along with the traditional economic gains which the firm seeks" (Davis, 1973). After varying views and debates as to the exact meaning of corporate social responsibility, Archie Carroll went on to define CSR as, "...the economic, legal, ethical, and discretionary expectations that society has of organizations

at a given point in time" (Carroll, 1979). The thought process behind this widely accepted definition of CSR was the following:

1. Businesses' economic and legal expectations were required by society;
2. Society expected businesses to be ethically responsible; and
3. Society desired businesses to have a discretionary/philanthropic responsibility (Carroll, 2015).

Economic responsibility is a requirement by society and the most basic social responsibility. With this economic and financial responsibility, an organization must make a profit of the goods and services sold to end-users. In turn, this should produce a return on the investment made by the owners and shareholders of the organization (Ferrell, Thorne, & Ferrell, 2016). The legal system is the basis of society's expectations as to the way an organization should conduct itself (Ferrell, Thorne, & Ferrell, 2016). Consequently, an organization needs to abide by the regulations and laws set by regulatory and governmental agencies as it conducts business in an effort to meet its economic responsibilities.

Society expects organizations to conduct themselves in an ethical manner. This means doing what is right even when the business is not required to do so by law. For example, if an organization wants to conduct business in an ethical manner, it will take care of its employees by offering competitive wages, health benefits, safe working conditions, and appropriate job training.

Discretionary and philanthropic activities that are desired by society refer to endeavors a company fulfills beyond its economic, legal and ethical responsibilities. Organizations exercising their discretionary/philanthropic responsibilities are going to help people and communities in need; this responsibility supports human well-being and goodwill (Ferrell, Thorne, & Ferrell, 2016). Donations of money, employees' time, and/or other resources are just a few examples of how organizations can demonstrate their discretionary/philanthropic responsibilities to society (Ferrell, Thorne, & Ferrell, 2016).

Today, all types of stakeholders, including employees, consumers, shareholders, financial institutions, as well as other stakeholder groups, are demanding companies operate in a socially responsible manner (Sprinkle & Maines, 2010). In response, companies desiring to be socially responsible must consider and focus on their various stakeholders' concerns and well-being by implementing CSR in their daily operations and long-term goals. The concept of social responsibility can be applied to any form or size of business. Small and large businesses, sole proprietorships, nonprofit organizations, and even government agencies can incorporate social responsibility into their everyday business practices (Ferrell, Thorne, & Ferrell, 2016).

The implementation of strategic corporate social responsibility initiatives has numerous beneficial business implications. To start, companies view CSR as a key element to their overall long-term success and financial viability (Isaksson, Kiessling, & Harvey, 2014). Today's customers have accessibility to more information than they have ever had before. Consequently, customers have a lot of power; they are demanding companies to include corporate social responsibility as the foundation of their business activities (Isaksson, Kiessling, & Harvey, 2014). Continuing with a company's CSR efforts and its customers, social responsibility can contribute to customers having positive thoughts and attitudes about the company; enhance a customer's identification of the company; and may actually persuade customers to purchase a company's merchandise and/or services (Lichtenstein, Drumwright, & Braig, 2004; Dutton, Dukerich, & Harquail 1994). In addition, many companies believe that their investment in CSR

not only increases employee motivation, but helps with the recruitment and retainment of top talent (Sprinkle & Maines, 2010; Dizik, 2009). This investment ultimately leads to cost savings since the company will not have to spend money on the recruitment, hiring, and training of new employees. Social responsibility can be instrumental to a company's risk management efforts, which inevitably assists in protecting its reputation and brand image (Isaksson, Kiessling, & Harvey, 2014; Sprinkle & Maines, 2010). Furthermore, companies who focus on environmental and sustainability aspects of CSR may actually save money due to a potential decrease in production costs (Sprinkle & Maines, 2010). While all of these are potential benefits of adopting a CSR perspective, some businesses who incorporate CSR into their core business practices do so simply because they want to do business better and be a good global citizen (Sprinkle & Maines, 2010).

Businesses are integrating corporate social responsibility practices in various ways to accommodate stakeholders' interests, concerns, and desires. That said, most do not consider nonprofits as having to integrate social responsibility principles into their daily operations. The reason for this is when for-profit organizations achieve their discretionary and philanthropic responsibilities, nonprofits are usually the recipients of their resource donations (Coombs & Holladay, 2012). Since social responsibility can be applied to any type of organization, nonprofits should also be striving to align their business practices with social responsibility concepts. Nonprofits are exactly like for-profit businesses because they have: employees they should treat fairly; a necessity to find steady sources of income (i.e. corporate donations, donations from individuals, grants, fundraisers, etc.); end-users who receive and benefit from their products and/or services; and countless stakeholders who can impact the way they operate their organization (Waters & Ott, 2014).

The most basic and simplistic way for companies to establish a CSR program is for them to give of their resources (i.e. money, products, and/or services) to local and national nonprofits as well as community organizations (Isaksson, Kiessling, & Harvey, 2014; Sprinkle & Maines, 2010; Ferrell, Thorne, & Ferrell, 2016). In addition, companies can establish volunteer programs. One way these programs work is for employees to spend company-supported time to serve local nonprofits and community agencies (Ferrell, Thorne, & Ferrell, 2016). Another way these programs can be established is for companies to allow employees to take time off from work (paid or unpaid) to perform volunteer activities (Isaksson, Kiessling, & Harvey, 2014; Sprinkle & Maines, 2010). Companies are aware their greatest assets are their employees. Therefore, corporate social responsibility involves taking care of employees' overall well-being and safety. Many employers provide health and wellness support through educational programs, on-site health clinics, and fitness centers (Isaksson, Kiessling, & Harvey, 2014). Companies also protect their employees by providing safe working conditions. Furthermore, employers are vigilant about potential hazards and dangers the employees may encounter while performing their jobs (Isaksson, Kiessling, & Harvey, 2014; Sprinkle & Maines, 2010). Finally, CSR initiatives include environmental and sustainability issues. Companies that are cognizant of their environmental footprint are participating in "green" practices, such as reducing packaging material, recycling, and conserving water and energy, to protect our Earth for future generations (Sprinkle & Maines, 2010). Above all else, for an organization's successful implementation of CSR, it needs to be strategic and align with the company's goals and objectives (Isaksson, Kiessling, & Harvey, 2014).

THE ISSUES

After just one day on the job, Bernie could see a whole host of problems that would need to be addressed. He rummaged around in a desk drawer for a notepad and pen to make some notes.

It was hard to believe that his office was operating on paper records, without the benefit of computer technology. They were getting the job done, but not efficiently. The office was far too small and very rundown. Also, all of the sports equipment was old. Bernie has realized immediately that Magnus was in dire need of safer helmets and shoulder pads for the pending football season. He wondered what kind of shape the rest of the gear was in.

More concerning to Bernie than the facilities and equipment, though, was staffing. His crew simply wasn't working well together. Their frustration was rubbing off on the parents and coaches, and that would be bad for business. Bernie's thoughts turned to the coaches. They were another issue, all to them themselves. It was hard to recruit coaches because they were generally local farmers, and they knew the commitment would interfere with their farming responsibilities. Other parents would usually pitch in to help, but they didn't have the training or knowledge to coach well. Something would have to be done about this.

Bernie looked over his notes, tapping his pen on the desk. The staffing and coaching issues would need to be addressed, as would the facility and equipment issues, but the kids were the primary concern. All these other issues were necessary to serve that mission, but they would require additional funding. Bernie had his work cut out for him.

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