MODULE I: Business and Society

Sunday, 2 June 2013 10:02 p.m.

i. CORPORATE SOCIAL RESPONSIBILITY (Week 2)

Categories and descriptions from Bovée and Thill (2013)

MINIMALIST

Companies do not have social responsibilities beyond earning money and obeying the law.
Eg. Mercury Energy

CYNICAL

Companies use CSR as a marketing ploy to distract attention from their self-centred behaviour.

DEFENSIVE

Companies engage in CSR only after being shamed or forced into it.
Eg. Sanlu Milk Scandal

PROACTIVE

Companies have a responsibility to help society beyond paying taxes and obeying the law.

RESPONSE: PHILANTHROPY

Give resources to **unrelated** causes to the company's lines of business.

Eg. Westpac Rescue Helicopter.

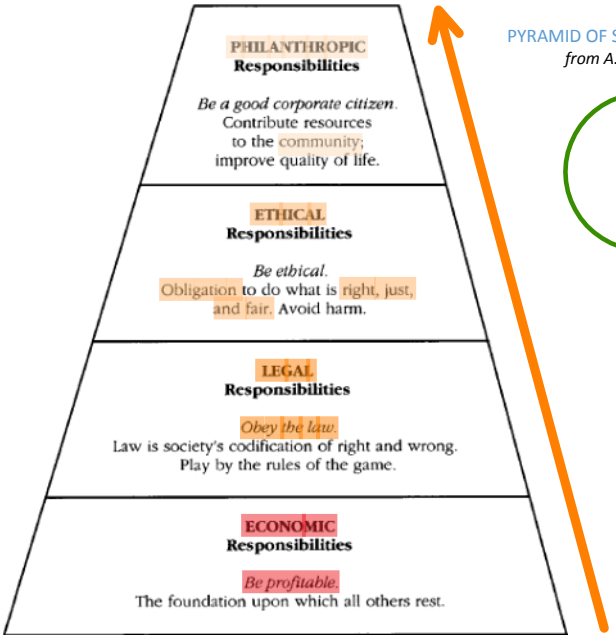
RESPONSE: STRATEGIC CSR

Invest resources in areas **aligned** with the company's line of business.

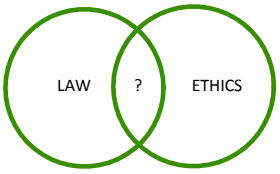
Eg. Fonterra's Milk in Schools.

Causes a business may choose to give to include charitable, humanitarian and educational organisations.

Resources include money, time, goods or services.



PYRAMID OF SOCIAL RESPONSIBILITY
from A. B. Carroll (1991)

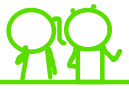


An ETHICAL DILEMMA is a conflict where something may be legal but unethical - the law and ethics do not necessarily agree.

Corporate social responsibility achieves commercial success in ways that honour ethical values and respect people, communities and the natural environment.

Sometimes the **company objectives** outline a company's stance in regards to:

- the environment
- shareholders/investors
  their customers
- their employees
- their local community.



A **stakeholder** a person or organisation that holds an interest in a company. They can affect and/or are affected by the business' decisions. Stakeholders include employees, customers and shareholders.

MORAL TYPES AND ORIENTATION TOWARD STAKEHOLDER GROUPS
from A. B. Carroll (1991)

Type of Management	*Orientation Toward Owner/Shareholder Stakeholders*
Immoral Management	Shareholders are minimally treated and given short shrift. Focus is on maximizing positions of executive groups—maximizing executive compensation, perks, benefits. Golden parachutes are more important than returns to shareholders. Managers maximize their positions without shareholders being made aware. Concealment from shareholders is the operating procedure. Self-interest of management group is the order of the day.
Amoral Management	No special thought is given to shareholders; they are there and must be minimally accommodated. Profit focus of the business is their reward. No thought is given to ethical consequences of decisions for any stakeholder group, including owners. Communication is limited to that required by law.
Moral Management	Shareholders' interest (short- and long-term) is a central factor. The best way to be ethical to shareholders is to treat all stakeholder claimants in a fair and ethical manner. To protect shareholders, an ethics committee of the board is created. Code of ethics is established, promulgated, and made a living document to protect shareholders' and others' interests.

Type of Management	*Orientation Toward Employee Stakeholders*
Immoral Management	Employees are viewed as factors of production to be used, exploited, manipulated for gain of individual manager or company. No concern is shown for employees' needs/rights/expectations. Short-term focus. Coercive, controlling, alienating.
Amoral Management	Employees are treated as law requires. Attempts to motivate focus on increasing productivity rather than satisfying employees' growing maturity needs. Employees still seen as factors of production but remunerative approach used. Organization sees self-interest in treating employees with minimal respect. Organization structure, pay incentives, rewards all geared toward short- and medium-term productivity.
Moral Management	Employees are a human resource that must be treated with dignity and respect. Goal is to use a leadership style such as consultative/participative that will result in mutual confidence and trust. Commitment is a recurring theme. Employees' rights to due process, privacy, freedom of speech, and safety are maximally considered in all decisions. Management seeks out fair dealings with employees.

Type of Management	*Orientation Toward Customer Stakeholders*
Immoral Management	Customers are viewed as opportunities to be exploited for personal or organizational gain. Ethical standards in dealings do not prevail; indeed, an active intent to cheat, deceive, and/or mislead is present. In all marketing decisions—advertising, pricing, packaging, distribution—customer is taken advantage of to the fullest extent.

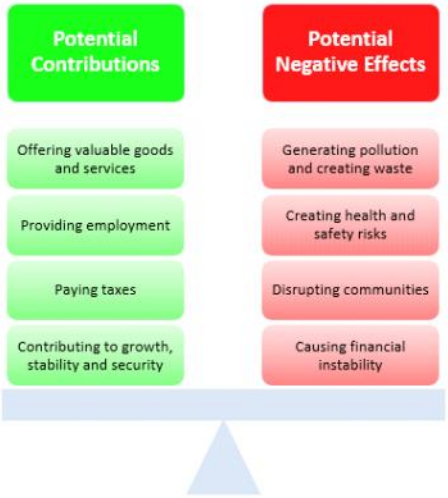
Type of Management	*Orientation Toward Local Community Stakeholders*
Immoral Management	Exploits community to fullest extent; pollutes the environment. Plant or business closings take fullest advantage of community. Actively disregards community needs. Takes fullest advantage of community resources without giving anything in return. Violates zoning and other ordinances whenever it can for its own advantage.

Immoral Management	Customers are viewed as opportunities to be exploited for personal or organizational gain. Ethical standards in dealings do not prevail; indeed, an active intent to cheat, deceive, and/or mislead is present. In all marketing decisions—advertising, pricing, packaging, distribution—customer is taken advantage of to the fullest extent.	Immoral Management	Exploits community to fullest extent; pollutes the environment. Plant or business closings take fullest advantage of community. Actively disregards community needs. Takes fullest advantage of community resources without giving anything in return. Violates zoning and other ordinances whenever it can for its own advantage.
Amoral Management	Management does not think through the ethical consequences of its decisions and actions. It simply makes decisions with profitability within the letter of the law as a guide. Management is not focused on what is fair from perspective of customer. Focus is on management's rights. No consideration is given to ethical implications of interactions with customers.	Amoral Management	Does not take community or its resources into account in management decision making. Community factors are assumed to be irrelevant to business decisions. Community, like employees, is a factor of production. Legal considerations are followed, but nothing more. Deals minimally with community, its people, community activity, local government.
Moral Management	Customer is viewed as equal partner in transaction. Customer brings needs/expectations to the exchange transaction and is treated fairly. Managerial focus is on giving customer fair value, full information, fair guarantee, and satisfaction. Consumer rights are liberally interpreted and honored.	Moral Management	Sees vital community as a goal to be actively pursued. Seeks to be a leading citizen and to motivate others to do likewise. Gets actively involved and helps institutions that need help—schools, recreational groups, philanthropic groups. Leadership position in environment, education, culture/arts, volunteerism, and general community affairs. Firm engages in strategic philanthropy. Management sees community goals and company goals as mutually interdependent.

ii. THE BUSINESS CONTEXT: GLOBAL, NATIONAL AND INDUSTRY LEVELS (Week 4)

POSITIVE AND NEGATIVE EFFECTS OF BUSINESS

from Bovée and Thill (2013)



THE MULTIPLE ENVIRONMENTS OF BUSINESS

from Bovée and Thill (2013)

These environments overlap, and can affect a business by **creating opportunities or constraints**.

GLOBALISATION AND THE GLOBAL MARKETPLACE

Economic Globalisation

There are many reasons as to why businesses consider **globalisation** -- see **pg. 49** of *Bovée and Thill (2013)* for more detail.

From webcast by D. Kolb (2013):

- **Cost efficiency**
  eg. Fisher and Paykel Appliances: cheaper manufacture costs in Thailand vs Dunedin.
- Following your **customers**
  eg. Beca Engineering: its services are provided to international firms, foreign projects or governments.
- **Geographic** market growth
  eg. adding Melbourne flight route: the city's population is nearly equivalent to the whole of New Zealand.
- Finding **new customers**
  eg. Pumpkin Patch: gone to the US and UK to expand to a bigger customer market because New Zealand is small.
- Building a **global brand**
  eg. Kim Crawford wines: never produced its own wines, but created the brand.
- Exploring/exploiting **new technologies**
  eg. Xero: develops accounting software that is IT-based and services based online.
- Global **commodity markets**
  eg. Fonterra: one of the largest dairy exporters but global market determines price of dairy.

Exchange rates

- affect financial results by increasing or decreasing **price of imports or exports** (**imports** are cheaper with a **strong dollar**, and vice versa).
- affect **international investment** (**higher investment into country** with a **weak dollar**).
- affect **inflation** (**reduced inflation** with **strong dollar** -- a weaker dollar is worth less).

Conflicts in International Trade

Free trade is international trade without restriction or interference. Supporters claim the net effects of free trade are positive. Opposition claim free trade exploits workers and threatens the middle class.

Government intervention occurs when a government feels free trade is not in the best interests of national industries, the workforce, consumers or national security. They can implement measures to protect specific groups or industries, but **protectionism** is often harmful in the long term, resulting in a weak and inefficient industry from lack of real competition.

Policies include:

- Tariffs: taxes, surcharges, duties, levies. Used to restrict trade; generate revenue; or punish countries who have violated international trade laws.
- Export subsidies: helping domestic producers to export goods by receiving enough funds to lower prices enough to compete effectively internationally.
- Restrictive import standards: helping domestic producers by making it harder or more expensive for foreign countries to import, eg. special licences for a type of business.
- Import quotas: limit of imported goods allowed.
- Embargos or sanctions: bans of import or export of specific goods or complete severance of trade between countries. Sanctions are politically-motivated, eg. arms trade bans, visa denials, reduction in foreign assistance.
- Anti-dumping measures: government acts to prove a fair price of a good so companies do not sell large quantities at prices lower than production cost or home country price.

International Trade Organisations

Organisations facilitating international trade, such as establishing what is fair and otherwise, include:

- The World Trade Organisation (WTO): forum for negotiating, implementing and monitoring international trade procedures. Mediates disputes amongst members.
- The International Monetary Fund (IMF) : monitors global developments, provides technical advice and training, provides short-term loans, works to alleviate poverty in developing nations.
- The World Bank: agency of the United Nations, owned by member states. Indirectly contributes to trade through work improving economic conditions in the developing world.

Trading blocs are regional organisations promoting trade between its member nations. Examples include:

- North American Free Trade Agreement (NAFTA): members are Canada, USA, Mexico; eliminated tariffs and quotas.
- European Union: constitutes world's largest economy; one of the largest trading blocs with 27 members. Introduced the Euro.
- Asia-Pacific Economic Co-operation: works to liberalise trade in Pacific Rim; represents 40% of the world's population and 50%+ of world GDP; 21 members.
- Union of South American Nations
- Association of Southeast Asian Nations (ASEAN)
- Greater Arab Free Trade Area (GAFTA)

Forms of Business Activity

Companies deciding to globalise will need to adopt an appropriate organisational form, with different levels of **ownership**, **financial commitment** and **risk**.

1. **Importing and Exporting**
   - the purchasing and selling of goods or services without a legal business presence in countries other than home country. Little risk.
2. **International Licensing**
   - agreement and entitlement for a company to use another company's intellectual property (eg. copyrights, brand names, patents) locally for a fee or royalty.
   eg. pharmaceutical companies.
3. **International Franchising**
   - selling rights to use a business system, including brand name and internal operational processes.
   eg. McDonalds, Burger King, Domino's.
4. **International Strategic Alliances and Joint Ventures**
   - strategic alliance: form a long-term partnership with locally established company (or more than one company), to develop, produce or sell products.
   eg. Windows OS on Nokia phones.
   - joint venture: two or more firms form a new legal entity, recognised separately from its individual companies.
   eg. Sony-Ericsson, a joint venture between Sony (Japanese) and Ericsson (Swedish).
5. **Foreign Direct Investment**
   - entering a foreign market through whole or part ownership of an existing company in locality. When a physical business entity is established in a locality, the company becomes a **multi-national corporation**. Gives greater control but higher economic and political risk involved -- FDI usually occurs in industralised countries that usually offer protection for foreign investors.
   eg. Amazon acquired Joyo in China, an already-established e-commerce company in China.

Organisational Strategies for International Expansion

Companies wanting to establish a presence in another country can adopt one of the following strategies. It needs to take into consideration **company objectives** (long-term), **nature of their product**, **market characteristics** and **managerial ability** to oversee geographically-diverse operations.

1. **Multi-domestic**
   - decentralised approach: company creates highly independent operating units within each new country, giving managers freedom to operate as if independent -- might not always be a good idea, eg. Carrefour in China.
   - does not deliver economies of scale.
2. **Global**
   - highly centralised: headquarters in home country exercising managerial control.
   - notion of economic globalisation: the world is a single, integrated market.
3. **Trans-national**
   - hybrid between multi-domestic and global: benefits from scale, but responds to local conditions. ("Think globally, act locally.")
   - major strategic decisions are centralised; localised business units exercise freedom to make appropriate decisions for respective local markets.

PESTE ANALYSIS

This is used to determine **influences** in a business environment.

Political - changes can make jobs or a workforce disappear (eg. brain drain, talent wars).
Economic - eg. economies of scale, consumer demand, low cost labour, labour shortage.
Social - social trends and influences eg. peer pressured trends.
Technical - disruptive technologies can have huge impact such as creating new markets (eg. tablets); incremental changes every year .
Environmental - impact on the environment, which matters in business eg. Air New Zealand's fuel usage.

Applied example: ***Icebreaker.***
Political - New Zealand offers little trade protection as a significant free market.
Economic - customer affordability
Social - wool was seen as unfashionable.
Technical - treatment of merino wool so that it is comfortable; technical excellence required for 'premium technical product'.
Environment - 'clean green New Zealand' image needs to be maintained in all aspects of the supply chain (factories in China).