Stakeholders, the Mission, Governance, and Business Ethics

Chapter 2

Who Are Stakeholders?

Origins of the Stakeholder Concept

What is a stake?
An interest or a share in an undertaking and can be categorized as:

- Interest
- Right
- Ownership
  - Legal
  - Moral
Successful strategists consider their key constituencies and their impact on the functioning and ultimate survival of the company.

_They do this through “corporate governance”_

Stakeholders and the Enterprise

Internal Stakeholders

- Internal
  - Stockholders
  - Employees
  - Managers
  - Senior Executives
  - Board members
External Stakeholders

- All other individuals and groups with some claim on the company such as:
  - Customers and suppliers
  - Creditors
  - Governments
  - Unions
  - Local communities
  - General public

Principles of Stakeholder Management

- Acknowledge
- Monitor
- Listen
- Communicate
- Adopt
- Recognize
- Work
- Avoid
- Acknowledge conflict

Why Consider Stakeholders?

- Stakeholders are key to the success of company
- If their claims are not considered, stakeholders withdraw support
- Stakeholders are in an exchange relationship with the company, therefore the company would not function as well if they lost the support
Impact Analysis

- The impact analysis helps companies decide what stakeholders are most critical to survival.
- Steps of an Impact Analysis:
  - Identify stakeholders
  - Identify their interests and concerns
  - Identify what claims they are likely to make
  - Identify most important stakeholders
  - Identify the resulting strategic challenges
- Most companies find that customers, employees, and stockholders are most important stakeholders

The Mission Statement

- **Purpose**: To establish the guiding principles for strategic decision making
- Includes 4 main elements:
  - The Mission
  - The Vision
  - Values
  - Goals of the Corporation
- The mission statement is a key indicator of how an organization views the claims of stakeholders.

Defining the Business

![Diagram of Defining the Business](image)
The Mission

• Describes what the company does
• Can be product oriented:
  – Focus on the product the company produces
• Can be customer oriented:
  – Focus on satisfying customers’ needs
  – Example: Kodak focuses on providing imaging solutions to customers, instead of focusing on the products that the company produces

The Vision

• Tells what the company would like to achieve
• Intended to stretch a company by articulating its ambitions
• Meant to be an attainable goal that will motivate employees

The near-term statement of the forces acting on the firm’s most important target market segments and the role the firm

Organizational Values...

• Tell how managers and employees should conduct themselves
• Establishes the basis of the organizational culture
  – Organizational culture is the set of values, norms, and standards that control how employees work to achieve an organization’s mission and goals
  – Organizational culture is an important source of competitive advantage
  – BUT... organizational culture is shared
Major Goals

- Most companies operate with goals of profitability and profit growth.
- Problems arise when managers overemphasize profit growth.
- Some companies tend to cut costs to increase short term profits, but the cuts can be detrimental to the company in the long run.
  - Why do they do this?

What are the characteristics of well constructed goals?

Define these key ideas in Corporate Governance and Strategy

- Risk capital
- Principal
- Agent
- Agency relationship
- Stockholders' Agents
What is the Agency Problem?

The Tradeoff Between Profitability and Revenue Growth Rates

Poor Business Ethics

- Early 2000's:
  - Scandals swept the corporate world
    - From 2001-2004 accounting scandals unfolded at a number of major corporations, including Enron, World Com, Tyco, Computer Associates, Health South, Adelphia Communications, Dynergy, Royal Dutch Shell, and the major Italian food company, Parmalat.
  - Self-interest seeking by senior executives- The accounting fraud masked massive debts and overcompensated top management.
  - Failure of corporate governance mechanisms- Fraudulent activities were not exposed internally
Ethics in Strategy

• Ethical Issues:
  – Self Dealing
  – Information Manipulation
  – Anti-Competitive Behavior
  – Opportunistic Exploitation
  – Environmental Degradation
  – Corruption

Roots of Unethical Behavior...

• A lack of separation between one’s business ethics and personal ethics
• Failure to ask relevant questions
• Purely economical organizational culture
• Pressure from top managers
• Unethical behavior by company leaders
  – It’s not what leaders preach that matters most, but the example they set by their actions

Monitoring Managers

Governance Mechanisms’ purposes are...
• to monitor agents,
• evaluate their performance, and / or
• to take corrective action to reduce the scope and frequency of agency problems

A goal of “governance” is to align stockholder and management interests.
What are the four main types of governance mechanisms?

Ethical Consideration

Some ways that companies attempt to infiltrate ethics into business functions:

• Hiring and Promotions
  – The act of hiring employees whose ethical principles are in line with the company’s ethics.

• Organizational Culture
  – The culture within the business that should explicitly articulate ethical values and place a strong emphasis on ethical behavior.

• Organizational Leadership
  – Once these values are explicated, it is important that leaders give life and meaning to these words by acting upon them.

Ethical Consideration (cont’d)

• Ethical Officers
  – Individuals responsible for making sure employees are trained to be ethically aware and that ethical considerations enter the business decision making process.

• Strong Corporate Governance
  – Rules that are established to make sure that managers adhere to ethical norms, and in particular, to make sure that senior managers do not engage in self-dealing or information manipulation.

• Moral Courage
  – Courage that enables managers to walk away from a decision that is profitable, but unethical.
“Conscience is the inner voice that warns us somebody may be looking.” - H. L. Mencker

“A company’s ethical conduct is something like a big flywheel. It might have a lot of momentum, but it will eventually slow down and stop unless you add energy.” - William Adams