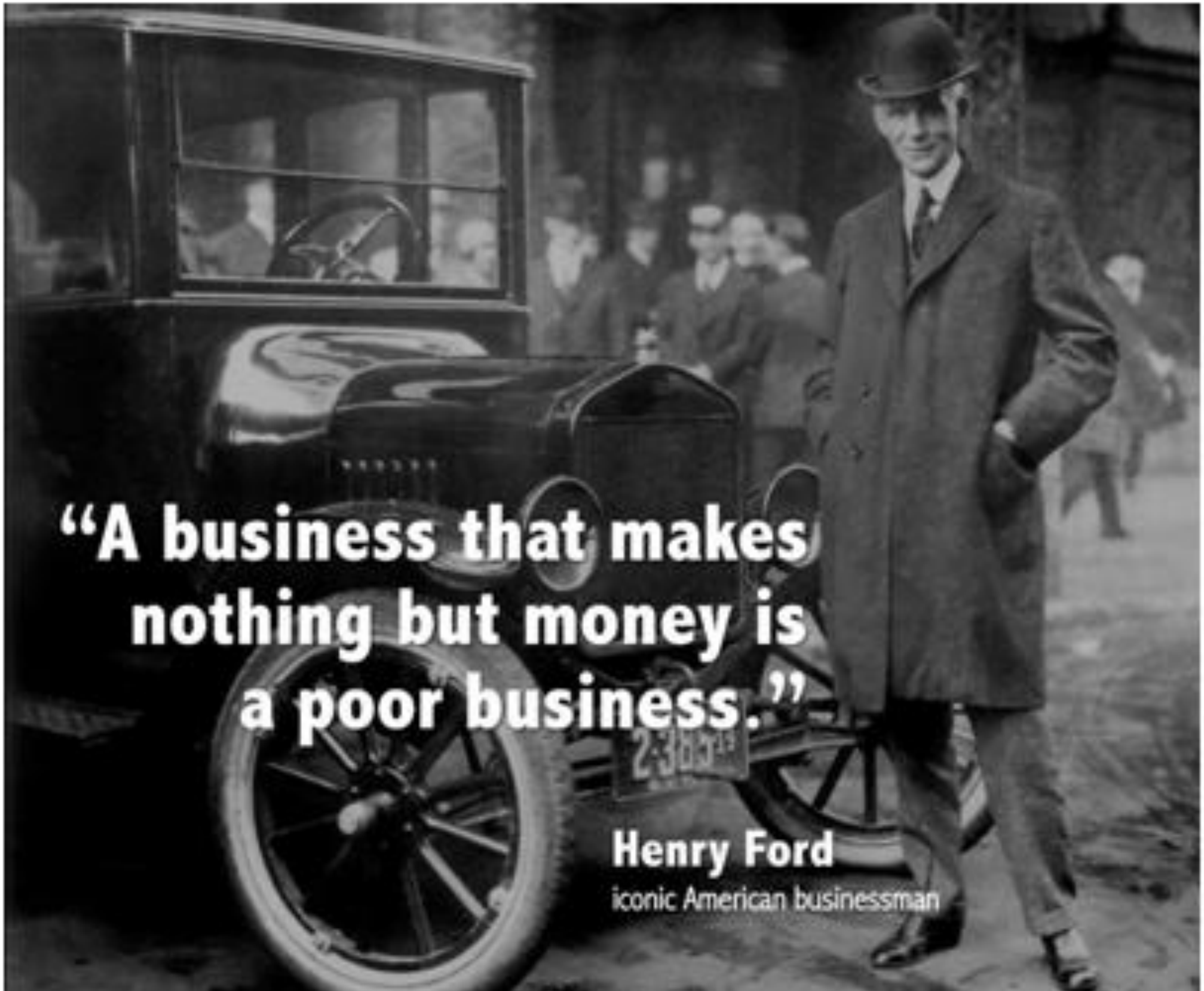
Controlling extended: Organisational performance and CSR



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KNOW ING

Learning Outcomes

After studying this chapter, you will be able to:

- Discuss the role that stakeholders play in the four stages of social responsibility.
- Differentiate between social obligation, social responsiveness, and social responsibility.
- Explain what research studies have shown about the relationship between an organization's social involvement and its economic performance.
- Define social screening.
- Explain what conclusion can be reached regarding social responsibility and economic performance.
- Describe how organizations can go green.
- Relate the approaches to being green to the concepts of social obligation, social responsiveness, and social responsibility.

Organisational performance

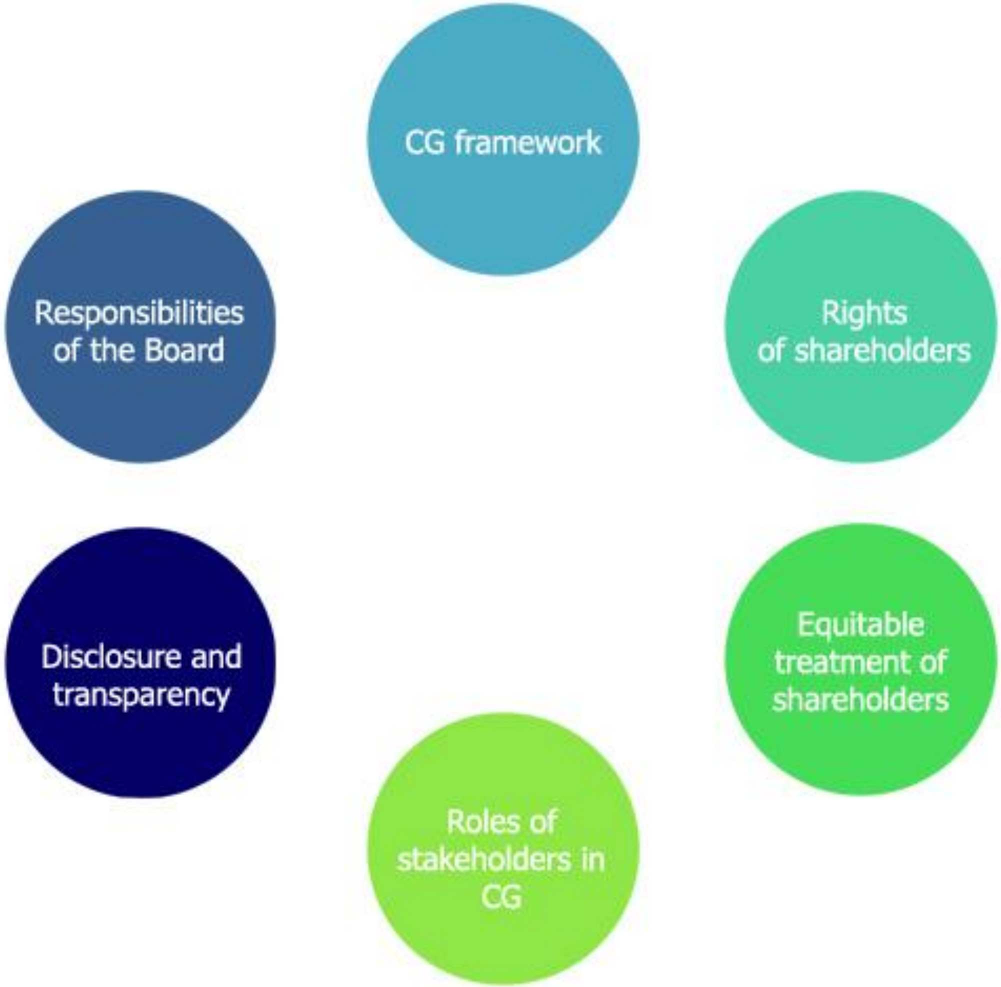
- **Controlling** is the management function most concerned with performance outcomes
- Value is created when resources are used in the right way, at the right time, at minimum cost to create high-quality goods/services.
- Performance measures include:
  - **Performance effectiveness:** an output measure of task or goal accomplishment.
  - **Performance efficiency:** a measure of resource cost associated with goal accomplishment.
  - **Productivity:** the quantity and quality of work performance, with resource use considered.
- Poor organisational performance can refer to organisational performance in the market (financial performance) or in the community (social responsibility) or in the environment (environmental performance)

Corporate Governance

Corporate Governance is about the way in which boards oversee the running of a company by its managers, and how board members are in turn accountable to shareholders and the company. This has implications for company behavior towards employees, shareholders, customers, and banks. Good corporate governance plays a vital role in underpinning the integrity and efficiency of financial markets. Poor corporate governance weakens a company’s potential and at worst can pave the way for financial difficulties and ever fraud. If companies are well governed, they will usually outperform other companies and will be able to attract investors whose support can finance further growth.

Corporate Governance

OECD Principles of Corporate Governance



Australian Stock Exchange (ASX) Governance principles

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TABLE 10.9 Australian Governance Council: ASX Corporate Governance Principles and Recommendations 2007

Principle 1: Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

Principle 2: Structure the board to add value

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

Principle 3: Promote ethical and responsible decision making

Companies should actively promote ethical and responsible decision making.

Principle 4: Safeguard integrity in financial reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Principle 5: Make timely and balanced disclosure

Companies should promote timely and balanced disclosure of all material matters concerning the company.

Principle 6: Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Principle 7: Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

Principle 8: Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Source: Prepared from ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 2nd edn, August 2007, available from <www.asx.com.au>.

A Quiz on Corporate Governance

The main purpose of corporate governance is:

A. To separate ownership and management control of organisations.
B. To maximise shareholder value.
C. To separate ownership and management control of organisations and to make organisations more visibly accountable to a wider range of stakeholders.
D. To ensure that regulatory frameworks are adhered to.

A Quiz on Corporate Governance

The main purpose of corporate governance is:

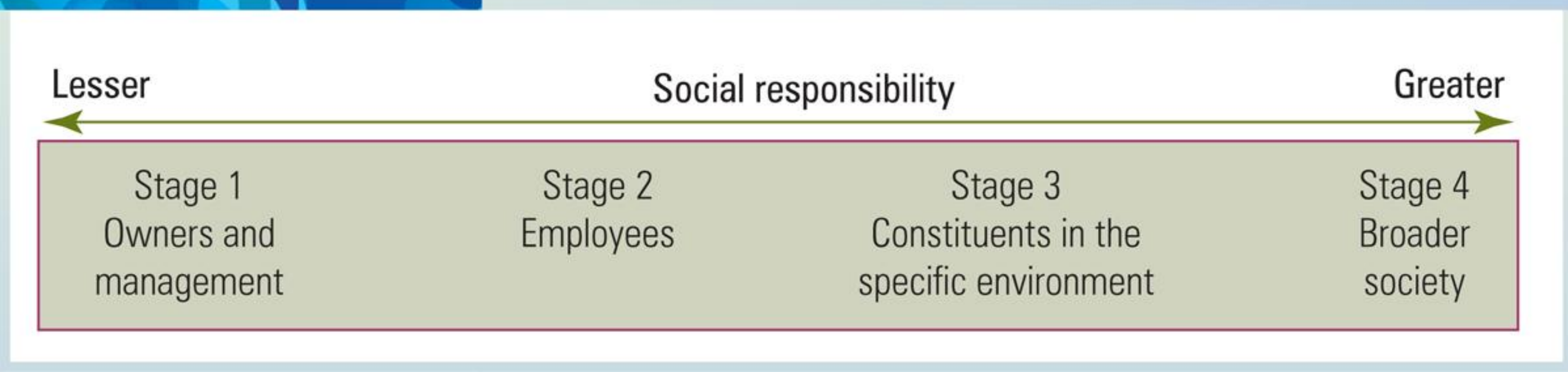
A. To separate ownership and management control of organisations.
B. To maximise shareholder value.
C. **To separate ownership and management control of organisations and to make organisations more visibly accountable to a wider range of stakeholders.**
D. To ensure that regulatory frameworks are adhered to.

Stakeholders

Stakeholder:

- Someone with a share or interest in a business enterprise (Ghillyer 2012).
- “Any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization.” (Freeman 1984)

FIGURE 5.1 To whom is management responsible?



Stakeholders

From Obligation to Responsiveness to Responsibility

Social Obligation

The obligation of a business to meet its economic and legal responsibilities and nothing more.

Social Responsiveness

When a firm engages in social actions in response to some popular social need.

Social Responsibility

A business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.

Corporate Social Responsibility

- The **classical view** holds that management's only responsibility in running a business is to maximise profits.
- The **socioeconomic view** holds that management of any organisation must be concerned for the broader social welfare and not just for corporate profits.

Triple bottom line

Corporate Social Responsibility

SOURCES: Based on Archie B. Carroll, "A Three-Dimensional Conceptual Model of Corporate Performance," *Academy of Management Review* 4 (1979): 499; A. B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Corporate Stakeholders," *Business Horizons* 34 (July–August 1991): 42; and Mark S. Schwartz and Archie B. Carroll, "Corporate Social Responsibility: A Three-Domain Approach," *Business Ethics Quarterly* 13, no. 4 (2003): 503–530.

Social responsibility strategies

A Quiz on Corporate Social Responsibility

Which of the following statements best describes Corporate Social Responsibility?

A. A corporation’s requirement to make as much profit as possible.
B. A corporation's obligation to society that goes beyond the requirements of the law and economics to take into account the social and environmental impact of its decisions.
C. A corporation’s obligation to consider the impact of its decisions on the environment.
D. The duty of care a corporation has to its employees and customers.

A Quiz on Corporate Social Responsibility

Which of the following statements best describes Corporate Social Responsibility?

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D. The duty of care a corporation has to its employees and customers.

The Greening of Management

The recognition of the close link between an organization's decision and activities and its impact on the natural environment.

Global environmental problems facing managers:

- Air, water, and soil pollution from toxic wastes
- Global warming from greenhouse gas emissions
- Natural resource depletion

How Organizations Go Green

Legal (or Light Green) Approach

Firms simply do what is legally required by obeying laws, rules, and regulations willingly and without legal challenge.

Market Approach

Firms respond to the preferences of their customers for environmentally friendly products.

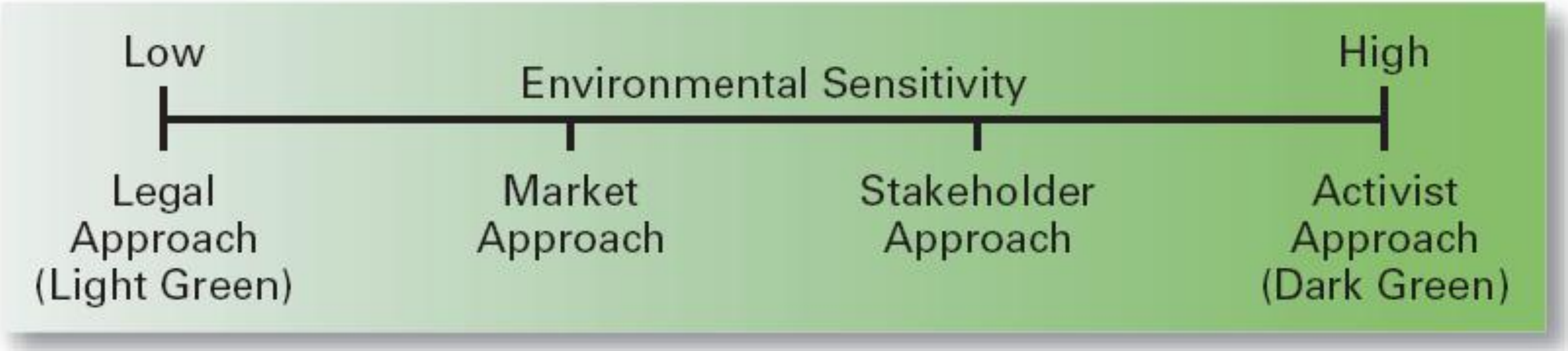
Stakeholder Approach

Firms work to meet the environmental demands of multiple stakeholders—employees, suppliers, and the community.

Activist Approach

Firms look for ways to respect and preserve environment and be actively socially responsible.

Approaches to Being Green

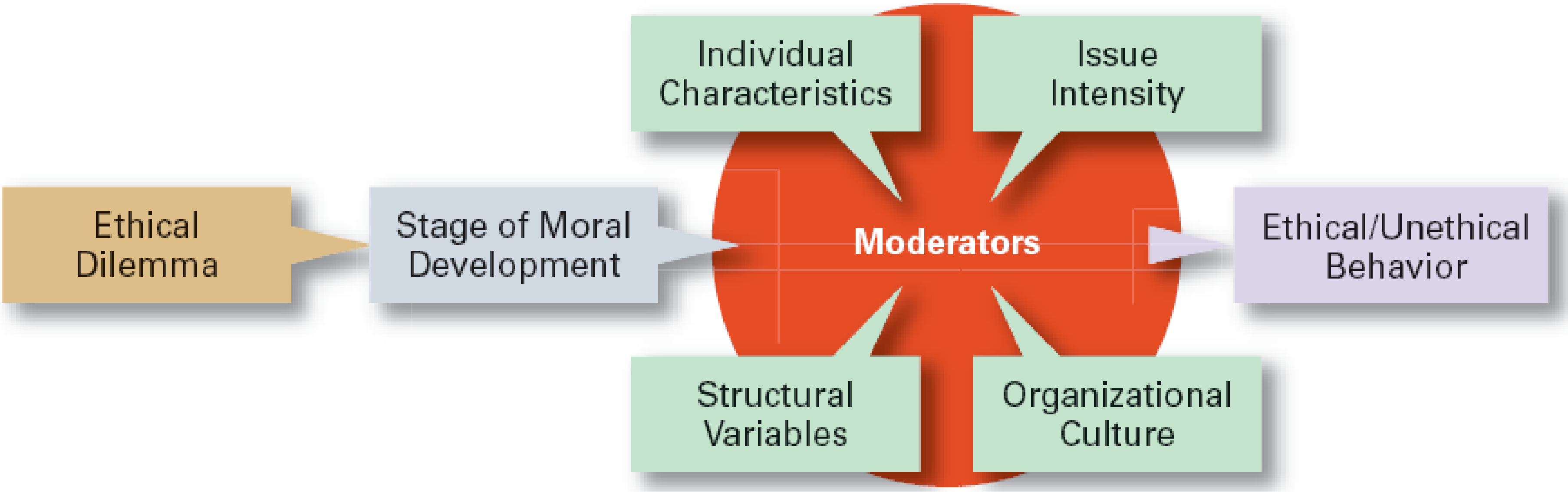


Managerial Ethics

Ethics Defined

Principles, values, and beliefs that define what is right and wrong behavior.

Factors That Affect Ethical and Unethical Behavior



Three Levels of Personal Moral Development

	Level 1 Preconventional	Level 2 Conventional	Level 3 Postconventional
	Follows rules to avoid punishment. Acts in own interest. Obedience for its own sake.	Lives up to expectations of others. Fulfills duties and obligations of social system. Upholds laws.	Follows self-chosen principles of justice and right. Aware that people hold different values and seeks creative solutions to ethical dilemmas. Balances concern for individual with concern for common good.
	Self-Interest	Societal Expectations	Internal Values
Leader Style:	Autocratic/coercive	Guiding/encouraging, team oriented	Transforming, or servant leadership
Employee Behavior:	Task accomplishment	Work group collaboration	Empowered employees, full participation

SOURCE: Based on L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Developmental Approach," in *Moral Development and Behavior: Theory, Research, and Social Issues*, ed. T. Lickona (New York: Holt, Rinehart, and Winston, 1976), pp. 31–53; and Jill W. Graham, "Leadership, Moral Development and Citizenship Behavior," *Business Ethics Quarterly* 5, no. 1 (January 1995): 43–54.

Ethics in an International Context

Ethical standards are not universal.

Social and cultural differences determine acceptable behaviors.

Foreign Corrupt Practices Act

Makes it illegal to corrupt a foreign official yet “token” payments to officials are permissible when doing so is an accepted practice in that country.

The Global Compact

The Global Compact

Human Rights

Principle 1: Support and respect the protection of international human rights within their sphere of influence.

Principle 2: Make sure business corporations are not complicit in human rights abuses.

Labor Standards

Principle 3: Freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: The elimination of all forms of forced and compulsory labor.

Principle 5: The effective abolition of child labor.

Principle 6: The elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Support a precautionary approach to environmental challenges.

Principle 8: Undertake initiatives to promote greater environmental responsibility.

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

How Managers Can Improve Ethical Behavior in An Organization

1. Hire individuals with high ethical standards.
2. Establish codes of ethics and decision rules.
3. Lead by example.
4. Set realistic job goals and include ethics in performance appraisals.
5. Provide ethics training.
6. Conduct independent social audits.
7. Provide support for individuals facing ethical dilemmas.

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A Quiz on Code of Ethics

A well-written code of ethics can do the following *except*

A. State policies for behavior in particular situations.
B. Reward the ethical behavior demonstrated by your employees.
C. Establish a detailed guide to acceptable behavior.
D. Capture what the organization understands ethical behavior to mean–your values statement.

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Social Entrepreneurs

Social Entrepreneurs

- Are individuals or organizations who seek out opportunities to improve society by using practical, innovative, and sustainable approaches.
- Want to make the world a better place and have a driving passion to make that happen.

Acknowledgments

Prof. Chris Rowley
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Dr. Timothy C. Bednall
Swinburne University of Technology

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thank you!