

B0646

Fundamentals of Management

Work environment &
Business ethics



Introductory case:

To Whom Should a Company Be Responsible?



San Bruno explosion. This 2010 gas explosion and fire in San Bruno, California, which killed eight people, was linked to utility PG&E's low priority given to pipeline safety and high priority to its "focus on financial performance." What group should a company be most responsible to—stockholders, managers, customers, the public?

The Triple Bottom Line

- In traditional business accounting, the “bottom line” is profit.
- Now two other elements are added to foster social and environmental consciousness.
- The triple bottom line—representing *People, Planet, and Profit* (the 3Ps)
 - ✓ An organization has a responsibility to its employees and to the wider community (People), is committed to sustainable environmental practices (Planet), and includes the costs of pollution, worker displacement, and other factors in its financial calculations (Profit).

The Millennial - Search for Meaning

- The “millennial” generation
 - Generation Y: born 1977–1989,
 - Generation Z: born 1990–2000.
- They are reported being less focused on **financial success** than they are on **making a difference**.
- Two factors in achieving a meaningful life:
 - The environment in which a manager operates—the community of stakeholders inside and outside the organization.
 - The ethical and social responsibilities of being a manager.

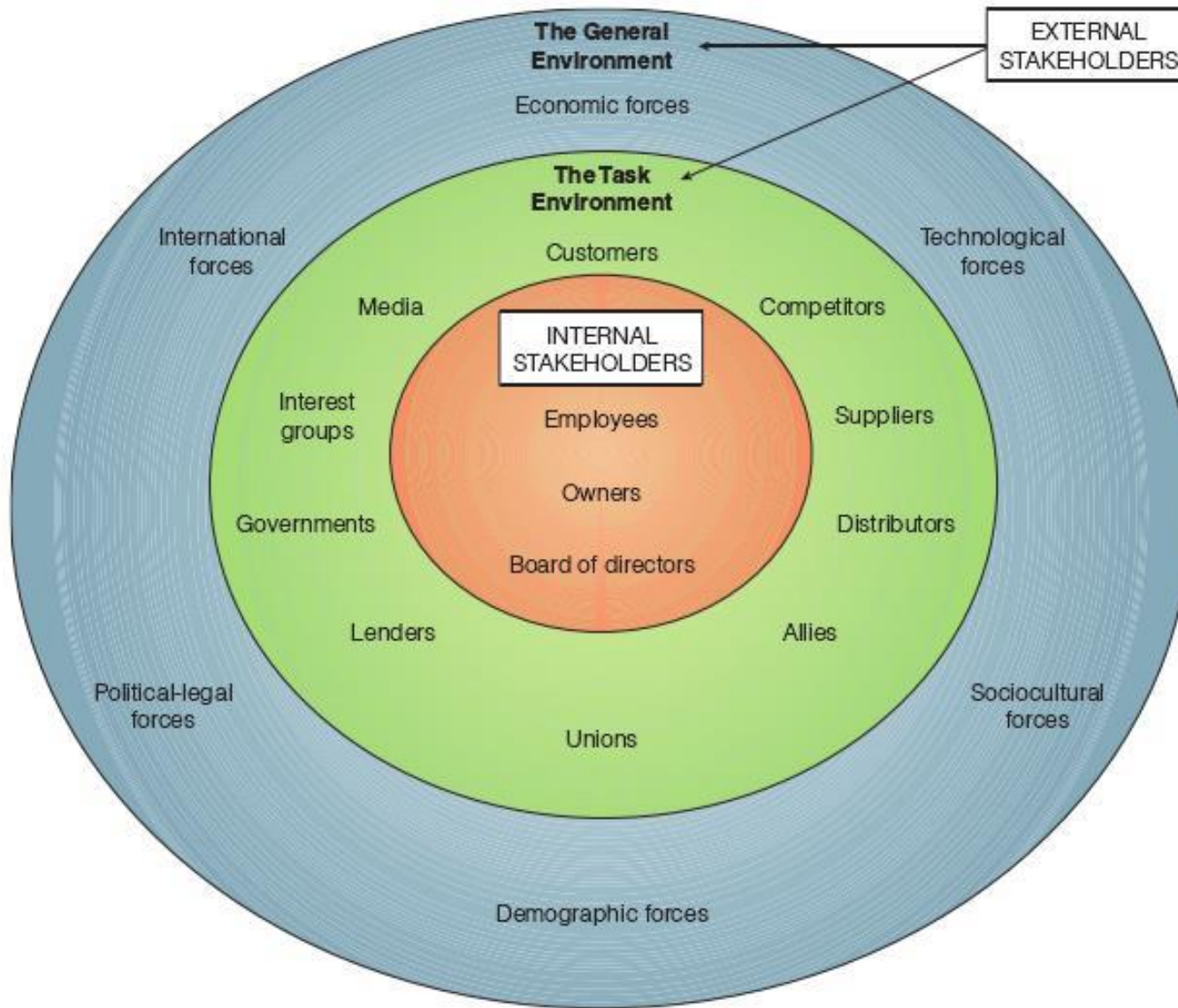
Stakeholders: the people whose interests are affected by an organization's activities.

Please list 5-8 types of stakeholders of an organization.

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The Organization's Environment



Managers operate in two organizational environments

- Internal stakeholders
- External stakeholders
 - The task environment
 - The general environment

Internal Stakeholders

- Internal stakeholders: employees, owners, and the board of directors
- 1. Employees are considered “the talent”—the most important resource.
- 2. The owners of an organization consist of all those who can claim it as their legal property
 - ✓ *a sole proprietorship – the owner is just you*
 - ✓ *a partnership – you and other non-family members own the firm*
 - ✓ *a privately owned company – a family owned company*
 - ✓ *joint owners – a company with more than 50% owned by employees*
 - ✓ *a stockholder – you buy shares of stock in a company*

3. Board of directors hire the chief executive of an organization.

- In a corporation, board of directors are elected by the stockholders to see that the company is being run according to their interests.
- In nonprofit organizations, they may be called the board of trustees or board of regents.
- Not all firms have a board of directors.
- Inside directors usually are top executives of the firm
- Outside directors are elected from outside the firm

The Task Environment

- *customers*
- *competitors*
- *suppliers*
- *distributors*
- *strategic allies*
- *employee organizations*
- *local communities*
- *financial institutions*
- *government regulators*
- *special-interest groups*
- *mass media*

1. Customers— who pay to use an organization's goods/services.
 - Many customers value service over price
2. Competitors—people or organizations that compete for customers/resources
 - Every organization has to be actively aware of its competitors.
3. Suppliers—people or organizations that provide supplies.
 - Suppliers in turn have their own suppliers.
4. Distributors —people or organizations that help other organizations sell its goods/services to customers.
 - In industries (e.g., movie theaters and magazines) with less competition, distributors have a lot of power over the price.
 - Internet has allowed manufacturers to cut out the “middleman”

5. Strategic allies—two organizations who join forces to achieve advantages neither can perform as well alone.

- Many customers value service over price

6. Employee Organizations

- Unions represent hourly workers
- Professional associations represent salaried workers.

7. Local Communities

8. Financial Institutions—banks, savings and loans, and credit unions

9. Government regulators—regulatory agencies that establish ground rules under which organizations may operate

10. Special-interest groups—groups whose members try to influence specific issues

11. Mass Media—print, radio, TV, and the Internet

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The General Environment/Macro-environment

- *Economic force*
- *Technological force*
- *Sociocultural force*
- *Demographic force*
- *Political-legal force*
- *International force*

- 1. Economic forces: **general economic conditions and trends** (e.g., unemployment, inflation, interest rates, economic growth)
- 2. Technological forces: **new developments in methods for transforming resources into goods or services.**
- 3. Sociocultural forces: **influences and trends originating in a country's, a society's, or a culture's human relationships and values** that may affect an organization.

- 4. Demographic forces: influences on an organization arising from changes in the characteristics of a population (e.g., age, gender, or ethnic origin).
- 5. Political-legal forces: changes in the way politics shape laws and laws shape the opportunities for and threats to an organization.
- 6. International forces: changes in the economic, political, legal, and technological global system that may affect an organization.

Business ethics

- Choosing between *economic performance* and *social performance*.
- Deciding whether to pursue a course of action that may benefit you or your organization but that is unethical or even illegal.

- Ethics: **the standards of right and wrong** that influence behavior.
- **These standards may vary among countries and among cultures.**
- Ethical behavior: the behavior that is accepted as “right” as opposed to “wrong” according to those standards.
- *What are the differences among a tip, a gratuity, a gift, a donation, a commission, a consulting fee, a kickback, a bribe?*
 - *Regardless of the amount of money involved, each one may be intended to reward the recipient for providing you with better service, either anticipated or performed.*



Sunshine on gifts. Some doctors say that medicine changes so rapidly that they rely on drug companies and fellow M.D.'s to keep them up to date, as through presentations at medical society dinners financed by pharmaceutical companies. However, the Physician Payments Sunshine Act now requires that pharmaceutical companies report meals, travel expenses, grants, lecture fees, drug samples, and other gifts to physicians. Do you think such disclosures are necessary?

Values

- Value system: the pattern of values within an organization.
- Values: the relatively **permanent and deeply held underlying beliefs and attitudes** that help determine a person's behavior.
 - *Fairness: hiring according to ability, not family background.*
- Organizations' value systems may conflict.
 - The value system stressing financial performance vs. employee relationships.

Approaches to Deciding Ethical Dilemmas

1. The Utilitarian Approach: For the Greatest Good

- What will result in the greatest good for the greatest number of people

2. The Individual Approach: For Your Greatest Self-Interest

- What will result in the individual's best long-term interests, which ultimately are in everyone's self-interest

3. The Moral-Rights Approach: Respecting Fundamental Rights

- What will be the fundamental rights of human beings, such as those expressed in a country's Constitution

4. The Justice Approach: Respecting Impartial Fairness

- What will be the impartial standards of fairness and equity

Example of White-Collar Crimes

- Insider trading - the illegal trading of a company's stock by people using confidential company information.
- Ponzi scheme - using cash from newer investors to pay off older ones.

Levels of Moral Development

- Level 1, **preconventional**—follows rules.
- Level 2, **conventional**—follows expectations of others.
- Level 3, **postconventional**—guided by internal values.

How Organizations Can Promote Ethics?

- 1. Creating a Strong Ethical Climate
 - An ethical climate represents employees' perceptions about the extent to which work environments support ethical behavior.
- 2. Screening Prospective Employees
- 3. Instituting Ethics Codes & Training Programs
 - A code of ethics consists of a formal written set of ethical standards guiding an organization's actions.
- 4. Rewarding Ethical Behavior: Protecting Whistle-Blowers
 - A whistle-blower is an employee, or even an outside consultant, who reports organizational misconduct to the public

Self-reflect Question:

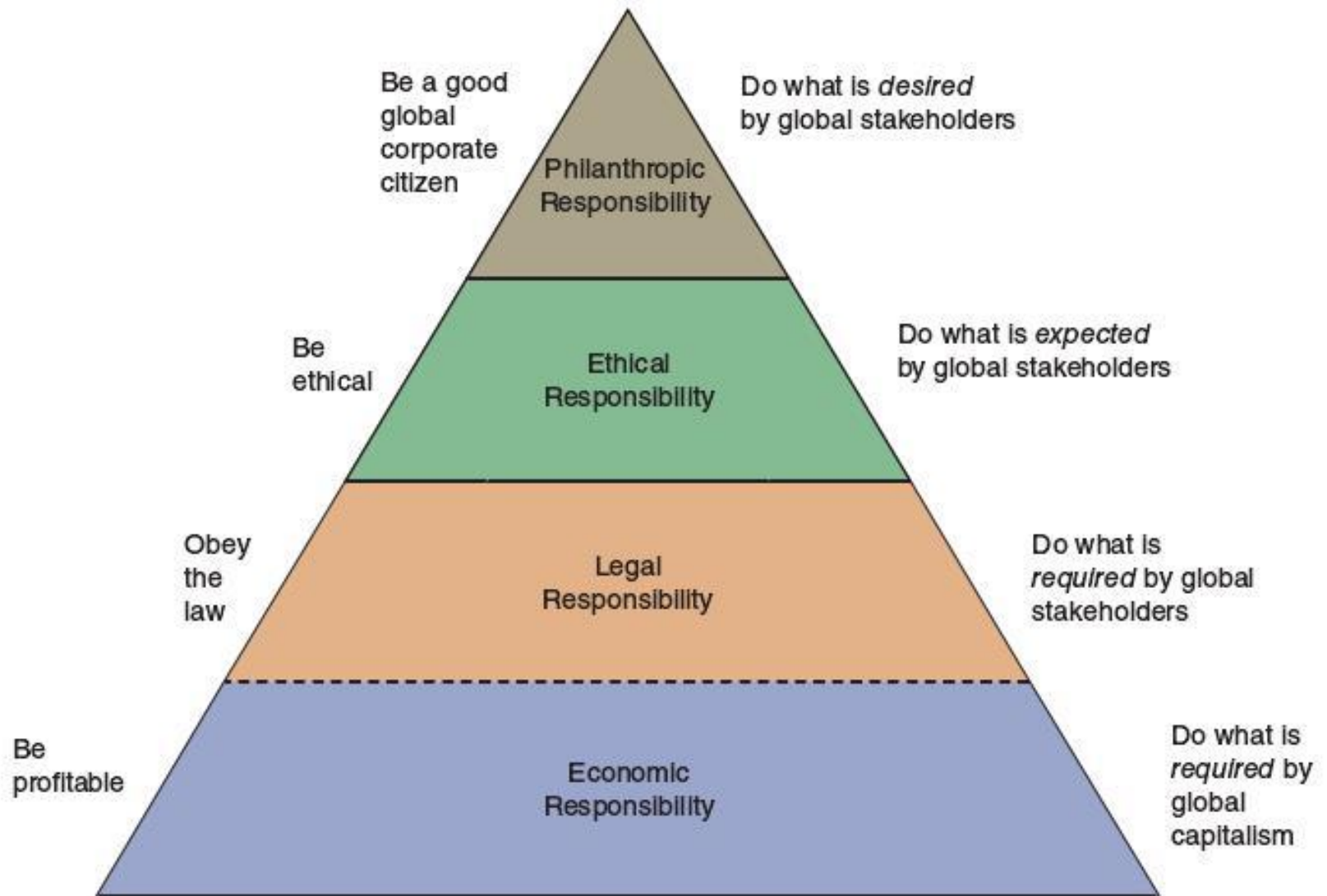
Have you ever thought about blowing the whistle on something you thought was unethical or illegal?

-If yes, please describe it

Social Responsibility

- Social responsibility: a manager's duty to take actions that will benefit the interests of society as well as of the organization.
- Corporate social responsibility (CSR), the notion that corporations are expected to **go above and beyond** *following the law and making a profit.*

Corporate Social Responsibility



EXAMPLE

Corporate Social Responsibility: Salesforce.com Wants to Change the Way the World Works

There are all kinds of ways by which corporate social responsibility is expressed. Salesforce.com, a San Francisco business software company, supports all the following four.¹⁰⁰

Operating with Integrity. Salesforce.com has adopted Business Conduct Principles and a Code of Conduct that, among other things, support ethical business practices, anticorruption, antidiscrimination, and rejection of forced or involuntary labor.

“1/1/1” Charitable Giving. When founder and CEO Marc Benioff set up Salesforce.com in 1999, he also created a foundation with a powerful but simple vision: donate 1% of Salesforce.com resources, 1% of employees’ time, and 1% of the firm’s technology to improving communities around the world.

Journey toward Sustainability. Although Salesforce.com does no manufacturing or mineral extraction, it still strives to reduce carbon emissions in the operation of its data centers and office buildings, as well as in employee travel.

Fostering Employee Success. At Salesforce.com, says the company, “our goal is to deliver a dreamjob experience for our employees. We are intense, passionate people on a mission to change the way the world works.”

YOUR CALL

Do you believe corporate social responsibility really has benefits? Can you think of any highly profitable and legal businesses that *do not* practice any kind of social responsibility?

Review exercise –

Is It Fair to Have Different Standards for Paying Bills versus Collecting Bills? (p99 in the textbook)

Assume that you are a high-level manager at Mondelez international and that you can affect the corporate policy of paying bills.

What would you suggest that the company do in regard to paying and collecting money? Why?

Vote for your answers.

Fundamentals of Management

Global Management



How Do You Become a World Citizen?

- Learn How Not to Be an “Ugly Foreigner”
- Be Global in Your Focus, but Think Local
- Learn What’s Appropriate Behavior
- Know Your Field
- Become at Least Minimally Skilled in the Language

Globalization

The trend of the world economy toward becoming a more interdependent system.

1. The rise of the “global village” and electronic commerce.
2. The world’s becoming one market instead of many national ones.
3. The rise of both megafirms and Internet-enabled minifirms worldwide.

Cross-Border Business

- Megamergers Operating Worldwide
 - e.g., Union Pacific + Southern Pacific. Kmart + Sears. Whole Foods + Wild Oats. Bank of America + Merrill Lynch.
- Minifirms Operating Worldwide
 - Small companies can get started more easily.
 - Small companies can maneuver faster.

Why Global Management

- You May Deal with Foreign Customers or Partners
- You May Deal with Foreign Employees or Suppliers
- You May Work for a Foreign Firm in Your Home Country
- You May Work for a Firm Outside Your Home Country

The attitude of managing global

- **Ethnocentric**—“We Know Best”
 - The home country, culture, language, and behavior are superior to all others.
- **Polycentric**—“They Know Best”
 - Foreign managers in the foreign offices best understand their personnel and practices, and so the home office should leave them alone.
- **Geocentric**—“What’s Best Is What’s Effective, Regardless of Origin”
 - There are differences and similarities between home and foreign personnel and practices and that they should use whatever techniques are most effective.

Why Companies Expand to International Markets??

Please list 5 reasons why company expands internationally.
Please limit your answers within 3 words.

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- *Availability of Supplies*
- *New Markets*
- *Lower Labor Costs*
- *Access to Capital*
- *Avoid trade barriers*
- *.....*

How Do Companies Expand Internationally?

FIGURE 4.1 Five Ways of Expanding Internationally

These range from lowest risk and investment (*left*) to highest risk and investment (*right*).



1. Global Outsourcing (offshoring)

- Using suppliers outside the country to provide labor, goods, or services.

2. Importing, Exporting, & Countertrading

- Importing – a company buys goods outside the country and resells them domestically.
- Exporting – a company produces goods domestically and sells them outside the country.
- Countertrading – bartering goods for goods.

3. Licensing & Franchising

- Licensing – a company **allows a foreign company** to pay a fee **to make or distribute its product or service**.
- The Du Pont chemical company might license a company in Brazil to make Teflon
- Franchising (a form of licensing) – a company **allows a foreign company** to pay a fee and a share of the profit in return for **using its brand name and a package of materials and services**.
- Burger King, Hertz, and Hilton Hotels might provide the use of their names plus their operating know-how to companies in other countries in return for an up-front fee plus a percentage of the profits.

4. Joint Ventures (strategic alliances)

- A domestic company and a foreign company share the risks and rewards of starting a new enterprise together.
- Ford has a joint venture in China with Changan Ford.

5. Wholly-Owned Subsidiaries

- A foreign subsidiary that is totally owned and controlled by an organization.
- General Motors owns Adam Opel AG in Germany and Vauxhall Motor Cars in the United Kingdom.