Group 9: Jake Jung, Kwan Kim, Trey Williams, Joseph Yamat

Exam 2

Question 1

In today’s day and age with the influence of technology, international business is becoming more and more prevalent. In the context of strategic management for these businesses, there are two “non-business and moral” pillars that will always be both necessary and essential, that is, business ethics and social responsibility.

Business ethics is the application of ethical principles and standards to the actions and decisions of business organizations and the conduct of their personal. Because business actions are judged in the context of society’s standards of right and wrong, ethical principles are not materially different from ethical principles in general. For example, if society deems bribery unethical, then it is unethical for company personnel to make payoffs to government officials to win contracts or to present favors to customers in order to win their business. The problem, therefore, lies in whether ethical standards are universal or dependent upon local norms.

The school of ethical universalism tells us that the most fundamental conceptions of right and wrong are universal and apply to members of all societies, companies, and business people. This theory takes into account multiple countries and cultures to put clear boundaries on what is ethical and unethical.

The school of ethical relativism, however, suggests that there are observable variations from one society to another as to what constitutes what is and is not ethical. This theory addresses how different religious beliefs, social customs, traditions, core values, and behavioral norms lead to different standards that cannot necessarily encompass all societies. This is important because if business is conducted internationally, it is unavoidable that one will come across these issues. If a business is to set a code of ethics for the company, it must remain constant throughout the company, regardless of what country the business activities are conducted in from an ethics point of view.

An example of a conflict that a business may face is that of the use of underage labor. Typically, in industrialized nations, the use of underage workers is considered taboo. There are social activists that believe very strongly that child labor is unethical and that companies should neither employ children under the age of 18 as full-time employees, nor conduct business with foreign suppliers that may make use of underage employees. While many countries have passed legislation forbidding underage labor, there are also many countries that have not. In some countries, it is customary and sometimes necessary to a family’s survival for the additional income of these underage workers. In many cases, poverty just does not allow for children to be sent to school instead of having them work. It is just not always a realistic option.

Another example of a conflict that a business may face is the payment of bribes and kickbacks. Multinational companies struggle with this particular conflict. In countries like Eastern Europe, Africa, Latin America, and Asia, it is customary to pay bribes to government officials to either win a government contract, to obtain some kind of license or permit, or to facilitate some kind of administrative ruling that would work in their favor. In other countries that are not as developed, it is difficult and sometimes impossible for a company, foreign or domestic, to move goods through customs without some kind of pay off to low-level officials. From an ethical standpoint, many companies forbid the payment of bribes and kickbacks and enforce it very seriously. Due to this fact, businesses risk losing business to competitors that do not have such a strict policy. The Foreign Corrupt Practices Act (FCPA) prohibits U.S. companies from paying bribes to government officials, political parties, political candidates, or others in all countries where they do business. The Organization for Economic Cooperation and Development (OECD) has anti-bribery standards that criminalize the bribery of foreign public officials in international business transactions. Although these laws are in place to secure sales and contracts, the practice of paying bribes and kickbacks still persists.

The integrative social contracts theory offers some middle ground between the opposing views of universalism and relativism. According to this theory, ethical standards upheld by companies are governed by both a limited number of universal ethical principles that are widely recognized as putting legitimate ethical boundaries on behaviors in all situations, and the circumstances of local cultures, traditions, and values that constitute ethically permissible behavior. Under this system, there exists some “moral free space”, which allows people to make interpretations of what may be considered ethical, but universal ethical norms always take precedence. Thus far, this is the best system that we have to accommodate the business goal of profits as well as an ethical stance.

In the United States, the Sarbanes-Oxley Act was passed in 2002, which requires companies whose stock is publicly traded have a code of ethics, and if not, an explanation in writing to the SEC as to why they do not. However, there is a big difference between having a code of ethics because it is mandated and having ethical standards to provide guidelines for a company’s strategy and conduct. To decipher between the two there exists a litmus test, which tells if a company’s code of ethics is cosmetic. When a new strategic initiative is under review it is important for senior executives to consider these three sets of questions: Is what we are proposing to do fully compliant with our code of ethical conduct? Are there any areas of ambiguity that may be of concern? Is it apparent that this proposed action is in harmony with our code? Are any conflicts or potential problems evident? and lastly, Is there anything in the proposed action that could be considered ethically objectionable? Would our customers, employees, suppliers, stockholders, competitors, communities, the SEC, or the media view this action as ethically objectionable? The only way to ensure that strategic initiatives hold to the company’s code of ethics is to ask these types of questions. It is important to consider the fact that what is legal is not always necessarily ethical. When a company’s strategies cannot pass moral tests they may potentially face sizeable fines, devastating public relations hits, and maybe even drops in stock prices that can cost shareholders billions of dollars, criminal indictments, and convictions of company executives.

There are three main drivers to unethical business strategies and behaviors: faulty oversight, enabling the unscrupulous pursuit of personal gain and self-interest; heavy pressures on company managers to meet or beat short-term performance targets; and a company culture that puts profitability and business performance ahead of ethical behavior. An example of faulty oversight is “Operation Perfect Hedge”, which focuses on the hedge fund industry. It is an investigation on insider trading. In 2014, this investigation has led to at least 79 guilty pleas or convictions. At SAC Capital, a $14 billion hedge fund, eight hedge fund managers were convicted of insider trading, which was called the most lucrative insider-trading scheme in U.S. history. As a result, the company had to pay $1.8 billion in penalties and has been forced to stop managing money for outside investors.

To exemplify the impact of heavy pressure on company managers to meet or beat short-term performance targets, consider Diamond Foods. In 2014, the SEC charged them with accounting fraud, alleging that the company falsified costs in order to boost earnings and stock prices. They had to pay $5 million to settle the SEC fraud charges, and the CEO had to pay $125,000 to settle a separate charge of negligence and return $4 million in bonuses to the company.

To address a company culture that puts profitability and business performance ahead of ethical behavior, I will use Enron as example. There was a high-performance—high reward climate as the best workers received outrageous incentives and bonuses. Employees wanted to be part of their star team and earn these perks and benefits. This win at all costs mindset nurtured a culture that gradually and then more rapidly eroded ethical standards. Because of deceitful accounting and unsavory practices, Enron imploded, which was one of the biggest bankruptcies of all time, costing investors $6 billion in losses.

Besides the fact that there are moral reasons to adopt ethical strategies, there are many relating to business as well. One major drawback, as exemplified by previous examples, is that of damaging a company’s reputation. In the age of social media, this could be catastrophic. There are also visible costs such as: government fines and penalties; civil penalties arising from class-action lawsuits and other litigation aimed at punishing the company for its offense and the harm done to others; and the costs to shareholders in the form of a lower stock price. There exists internal administrative costs such as: legal and investigative costs incurred by the company; the costs of providing remedial education and ethics training to company personnel; the cost of taking corrective actions; and administrative costs associated with ensuring future compliance. Lastly, there are intangible or less visible costs such as: customer defections; loss or reputation; lost employee morale and higher degree of employee cynicism; higher employee turnover; higher recruiting costs and difficulty in attracting talented employees; adverse effects on employees productivity; and the costs of complying with often harsher government regulations. These costs are illustrated in the text in Figure 9.1 found on page 267 of the textbook.

Corporate social responsibility refers to a company’s duty to operate in an honorable manner, provide good working conditions for employees, encourage workforce diversity, be a good steward of the environment, and actively work to better the quality of life in the local communities where it operates and in society at large. Acting in a socially responsible manner encompasses more than just participating in community service projects and donating money to charities. Demonstrating social responsibility also entails undertaking actions that earn trust and respect from all stakeholders like operating in an honorable and ethical manner, striving to make the company a great place to work, demonstrating genuine respect for the environment, and trying to make a difference in bettering society. Figure 9.2 found on page 269 illustrates the five components of a corporate social responsibility strategy.

An example of a CSR strategy is that of General Mills. This company centers its CSR strategy around three themes: nourishing lives (via healthier and easier-to-prepare foods), nourishing communities (via charitable donations to community causes and volunteerism for community service projects), and nourishing the environment (via efforts to conserve natural resources, reduce energy and water usage, promote recycling, and otherwise support environmental sustainability).

Figure 9.3 found on page 272 of the textbook illustrates the triple bottom line. This figure is a reference to three types of performance metrics, namely, economic, social and environmental. The goal of all companies is to succeed at all three dimensions at the same time. Staples, the world’s largest office products company, makes reporting an important part of its commitment to corporate responsibility. The company posts “Stables Soul Report” on its website that describes its initiatives and accomplishments in the areas of diversity, environment, community, and ethics.

The business reasons for why companies should be public-spirited and devote time and resources to these initiatives are that the actions can lead to increased buyer patronage, reduce the risk of reputation-damage incidents, lower costs and enhance employee recruiting and workforce retention, revenue enhancement, and these practices are in the best long-term interests of shareholders. Companies that take social responsibility and environmental sustainability seriously can improve their business reputations and operational efficiency while reducing their risk exposure and encouraging loyalty and innovation.

The issues relating to business ethics and social responsibility are vast. New situations arise all the time. Because there is no perfect uniform set of instructions as to a code of ethics for all businesses, every business has been and always will be challenged with decisions in crafting strategy initiatives. It is evident through the above-mentioned examples that decisions can result both positively and negatively, and thus although not necessarily business related, they are both necessary and critical for strategic management.

Question 4

Corporate culture is a noun that is easily implied into all aspects of business. The difficult part of implementing a culture is having the actions and voices of employees reflect the culture set in place by the upper management or CEO. Every person in the organization has to have a moral basis that is consistent with the culture set in place for the company as a whole to be successful. The core values that a company wants to act has to be consistent with the culture of the company. The subcultures also have to be aligned with the corporate culture to be successful. The culture of a corporation has many other benefits that will help a company execute its strategy better. By acting on the values of corporate culture it can help the strategy of a company be executed to the fullest extent.

For an example of applying a corporate culture, a sports fitness nutrition company, such as one producing protein powders will be the model. I think this is a good model because there are more than fifty brands of protein that are listed on amazon. This wide diversity of brands shows just how competitive of a market this industry has. Also showing there are many different cultures and strategies that make each brand succeed or fail. The way organizations market their product and manufacture it are both aspects of business that are effected by corporate culture. Some companies will use gimmicks and falsities to gain as many sales as possible while others choose to be honest and satisfy the customer. There are positives and negatives of both however, each has its own culture different from the other. In this hypothetical organization one culture will have to be widely used across all aspects of the company. When starting or transforming a company the internal work climate must match the culture. The shared values, attitudes and beliefs are what would need to be analyzed in this company to get the best results.

A way to do this would start with the employees. Each employee would have to have the shared beliefs and values that shape a fitness minded company. The best employees would be involved in their own personal fitness and want others to be healthy as well. A wide range of fitness activities would be acceptable anything from yoga to martial arts would be considered as aligning with the values. I would want the employees to be dedicated to whatever form of fitness they choose and have it be of high importance. This way they would be able to accept the culture of the company and want to execute the strategy to their best abilities. The culture I would want to put in place is one that this organization produces the best fitness supplements for the best athletes. Every employee would have to believe they are selling the best quality fitness supplements and reiterate this anytime someone asked about the brand. I would want to institute a culture that the people who are manufacturing the supplements know when any quality problems arise with ingredients from suppliers to immediately report it to upper management. A very sensitive and quality focused group of employees would be ideal to maintain manufacturing at a high level. I would want the ethical standards of the company to be very high as well. As the CEO I would try to create a culture where the transparency of the products are very high. That means everyone would know exactly what’s in the ingredients and be able to faithfully tell our buyers. When employees don’t have to lie about what they are selling and truly believe in it, it changes their outlook on how they go about their job. They will have a sense of pride about the product and never feel as if they are doing anything negative. A culture must have a positive image to be successful because it allows the minds of the employees to be guilt free and enlightened with product knowledge. I would want the whole organization to be very open about sharing knowledge to show we want the best technology by any means. If a low level worker has heard of a new ingredient that will be of interest to the company, the upper level management can be contacted right away. The scientists working on new formulas would freely be able to interact with the marketing team to exchange information on what new innovations the company comes up with. The culture remains the same being that this is a fitness inspired corporation and the more care we put into a product the higher the satisfaction of the athletes using it will be. The culture of the company produces an open and transparent management construction so the employees can see and act on the same initiatives management does.

It is important to have an adaptive culture as well. We would have to be ready to adapt to any changes in the market if one ingredient was considered better than on we were using. Many companies will try to quickly change their product and have it at a lower quality than what it was before. An adaptable culture would allow our organization to better respond to a trend in the industry. The quality aspect of this culture would also allow the company to enter a new trend with a superior degree of quality and knowledge.

With the employees of the organization very involved in fitness themselves, it keeps them all involved in the industry and leads to better product innovation within. The peer pressure from the company also leads to better overall results from the sales, manufacturing, and research of the organization. This is because if sales is doing the best, it shows they have a better connection to athletes based on their marketing. If the manufacturing is doing best it shows they have the best grasp on the best ingredients that allow for a good price and quality of the product. Showing that they provide the best support for athletes. If the research team is doing best it shows their connection to athletes is the strongest. This is all an example of how the rooted culture and value of fitness is what provides the guidelines for the company and it allows everyone to perform their job with this in mind. I would want every employee to feel like their idea could be the next one that ends up on a package as the headline improvement that the product has made. A high level of importance must be placed on all employees so no one feels unimportant. This helps lead to an engaged workforce that produces high quality results.

At a corporation with a culture such as this would have many amenities provided to the employees to prove their dedication to fitness. It would have to have a great gym for all employees or provide everyone with a gym membership to an outside gym of their choosing. As well as offer subsidies for any fitness activity that employees wanted to partake in. At my current job, they offer to pay for your entry in an Annual 5k run and I think this is a tactic I would take up for this hypothetical organization as well. I would want our brand to sponsor as many fitness events as possible and be a name many see at the forefront of fitness. A fit CEO would be a good thing to have as well because he or she would be leading by example. All of these things play into the culture of the organization as well and reflect on the core values. I also think a company such as this would have subcultures that are still well aligned with the primary culture.

All of these attributes combined would allow for a company with a strong culture and commitment to fitness which I think would help it become very successful in the industry. Consumers would be able to look at this company and realize that it is trying to serve them best and that its mission is based on that. The transparency of this company would also allow a consumer to realize profits were secondary to quality and performance of the product. However having a culture like this also helps the company to make sales and profits because consumers are choosing a brand that align with their values of honesty, performance, and most of all, a focus on fitness.

Question 5

This course has been valuable in many aspects. First of all it gave me a solid foundation on how to manage a group of people. The course focused mainly on managing large companies, but I feel that some of the information from the course can also be used to manage small groups as well as large scale companies. This course had much information that can help a CEO perform his duties.

The first lesson in the course that stands out in my mind is charting a company’s direction from chapter 2. The strategy-executing process is an extremely useful concept for a CEO or any manager who needs to create a new strategy for their company. A diagram of this concept can be found on page 20. The first step of the process is to develop a vision, mission, and a set of core values. Since this step determines the direction that a company will move in it is important to have a concrete idea of what direction you want the company to move as well as why you believe the company should exist. A company’s mission is how they intend to achieve their vision for the company. The mission focuses on how a company is operating today in order to achieve their vision.

After crafting a vision and mission for a company it is important to decide what goals the company wants to reach. These goals can be financial benchmarks, reaching a certain market segment, or any other goal that a CEO wants to reach. These goals should fit with in the frame of the company’s mission and vision. For example a company that has a mission of serving a narrow segment of the market wouldn’t set a goal of expanding their market segment.

Once a goal is determined by a CEO they must determine a strategy to achieve this goal. Depending on the goal a CEO they will want to use different levels of the strategy making hierarchy. An illustration of this hierarchy can be seen on page 33 of the book. Generally speaking it means that depending on the size of the goal that the company is looking to achieve they should implement a strategy at various levels of the company. For example a corporate strategy is handled by the CEO, while an operation strategy is handled by brand or plant managers. As a CEO it is important to know where to implement and execute your strategy. Once a strategy has been implemented a CEO must analyze how well or poor the strategy was executed. After analyzing this information a CEO can go back to previous steps in the process to make changes in an attempt to implement a strategy successfully.

I think this concept is so useful because of how simple it is. Simple trial and error can be such a successful tool when trying to determine the correct plan of action for a company. I believe that this is the first tool that a CEO should have when deciding the direction of a company. Aside from business uses I believe that this concept can also be used in all levels of a business to some extent. It may not be use to the same extent as it is by a CEO, but the concept could still be valuable to lower level employees of a company.

Three chapters that I feel fit well together are chapters 3-5. Chapter 3 talks about how a company can evaluate their external environment. This is best illustrated through the diagram on page 47. The diagram shows that a company’s external factors fall under the immediate competitive environment and the macro-environment. The immediate environment references straight forward business factors such as customers, competitors, supplier, and etcetera. The macro environment includes sociocultural factors, environmental factors, economic factors, political factors, and more. IT is important to know the distinction between these two environments. This is because it is possible for a CEO to have some influence on the immediate environment, but not possible to have a large effect on their macro-environment on a meaningful level.

Another way to analyze a company’s immediate environment is through the five forces model. A diagram of this model can be seen on page 49. It helps a company measure their standing in their immediate environment by measuring the factors associated with the five forces. The information gathered from the five forces model helps a CEO better understand where their company is situated within their immediate environment. It is very important for a CEO to understand their external circumstances if they are to be successful.

Chapter 4 goes into detail on how a company can evaluate their resources and capabilities. This concept goes well with the previous chapter because it allows a CEO to biter understand their company so they can make decisions accordingly. This chapter can be broken down by a series of questions that a company must address to better understand their capabilities. The first question is “How well is the companies present strategy working?” To answer this question there are several financial ratios that a company can use to measure their current performance. These ratios can be found in table 4.1 on page 81. The general rule is that when a company is preforming well financially that means there is a high chance that they have a well-conceived and well executed strategy. The second question is “What are the company’s most valuable resources and capabilities?” Resources can take many forms for a company. Some examples are an exclusive manufacturing process or a highly regarded IP. When a company is analyzing its resources they can use these 4 metrics: is it valuable, rare, inimitable, or no substitutable. If a CEO sees that a resource or capability preforms strongly in several of these categories then they can use that resource to gain a competitive advantage. The next step is to do a SWAT analysis on the company. Then compare the company’s strengths to its external threats. A CEO should focus their company’s resources on activities that they have an advantage in over other companies. The final question to ask is whether you are stronger or weaker than key rivals. This is done after the SWAT analysis so the CEO has a better idea of how their company performs in relation to other companies. We can look at an analysis in table 4.4 on page 106. This ranking helps a CEO better understand what areas they are strong in, and where the company needs improvement.

Chapter 5 ties these two concepts together through the five generic competitive strategies. These in order to properly implement one of the five generic strategies a CEO must fully understand their company’s place in the environment of a particular industry. They must understand the strengths and weaknesses of a particular brand or product line as well as how it will compete with competing brands on the market. For example if a CEO finds that their company has a strong asset in their supply chain that allows them to sell products at a low price relative to their competition then they would want to focus on an overall low-cost strategy. This is because competitors wouldn’t be able to keep prices as low. Another example would be if our CEO’s company has a robust R&D division that produces technology breakthroughs that can be used to make new and unique products. If this is the case than the CEO should focus on a broad differentiation strategy. It is important to gain a full picture of a company and the external environment that it resides before making large scale strategy decisions.

When a CEO looks to expand the company they may think that it is wise to expand to international markets. They may desire to do this for a number of reasons be mainly they do it to increase profits. There are a number of international strategies for selling goods. These are export, licensing, franchising, foreign subsidiary, and joint venture strategies. These strategies are arranged in order of risk, export being the least risky and joint venture being the most. A company may want to peruse these risky strategies because there is a much higher potential for profits. It is important for a company to understand the local culture of the country they intend to expand to. Without proper knowledge of the new market the expansion could end up being a massive failure. Like all strategic business moves it is important for the CEO to fully understand all factors of the decision that they are about to make.

I believe that the ethical responsibility discussed in chapter 9 is one of if not the most important chapters in the book. It is important for a CEO to perform their job to the best of their ability, but that should not mean breaking the ethics of society. Business ethics and personal ethics are the same thing. This means that if it is unethical for a person to do something then it is unethical for a company to do it. Some people would argue that business ethics should be of a lower ethical standard than personal ethics, but I view this as a cynical attitude.

A company should be able to peruse profits, but they have a duty to the society in which they operate to hold themselves to the ethical standards of that society. If a CEO sees that they can operate within the law but below the ethical standards of a society, they still have a duty to follow ethical standards. The blind pursuit of profits at all cost hurts all people involved. The idea that “business is business” is faulty because it leads to people becoming detached from their behaviors that lead to people being harmed due to these practices. Aside from the moral argument of acting ethically there is also a strong financial incentive to act according to the ethics of a society. In figure 9.1 on page 267 we can see the various costs associated with acting unethically. The most damaging of these costs is are the intangible costs. These reference the loss of customer good will, employee morale, and company reputation. These financial losses should be enough for a company to act according to the ethical standards of a society.

It is important for a company to have a strong corporate culture. By “strong” I mean a culture that promotes the wellbeing of employees as well as allowing innovation to thrive. A CEO should view the employees of their company not as a resource to be used by the company, but as partners that can both boost the profits of a company. If you take care of your employees then they will take care of you.

Apart from the chapter work I feel that one very useful aspect of this course is the case presentations. The cases allowed us to gain a good understanding of the different strategies that a company may use to achieve their goals. They were a good practical demonstration of the concepts that we learned through the course. Looking deep into the operations of a company and trying to gain a better understanding of what they are doing right and wrong was an interesting way to see how a CEO or manager may implement the concepts of the course. The various cases offered several different financial and strategic situations that will be a useful tool in the future if I ever have to make similar decisions for a company or in a particular division of a company. I have no doubt that the information offered in this course will be invaluable to the future success of our business careers.