

## Business Ethics

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## Stakeholders

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- Constituencies which have a "stake" or claim in some aspects of the company's products, operations, markets, industry, and outcomes; are known as stakeholders.
- They are influenced by the business but also have ability to influence businesses.
- So, it's a two-way relationship

## Function of Stakeholder

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- Provision of resources
  - Tangible
  - Intangible
- Ability to withdraw resources or threaten to withdraw the needed resources gives power over businesses.

## Stakeholder identification (..)

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- Primary
  - Whose continued association is absolutely necessary for a firm's survival.
    - Employees
    - Customers
    - Shareholders
    - Suppliers
    - Government
    - Community

## Stakeholder identification

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- Secondary
  - Do not typically engage in transactions with a company and thus are not essential for its survival.
    - Media
    - Special interest groups
    - Trade associations
    - Competitors

## Stakeholder Orientation (..)

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- "the degree to which a firm understands and addresses stakeholder demands"
- Comprises three set of activities;
  - Organization wide generation of data about stakeholder groups
  - Assessment of the firm's effects on these groups
  - Dissemination – distribution of this information throughout the firm
  - Organizational responsiveness to it as a whole

## Stakeholder Orientation

- Generation of data:
  - Identify the relevant stakeholders to the firm. On grounds of:
    - Power
    - Ties among them
  - Characterize the concerns of stakeholder groups about your business's conduct;
    - Surveys, focus groups, internet, press reviews
  - Company evaluates its impact on these issues.
  - The information (stakeholder intelligence) above shall be circulated and shared to all members of the organization.
    - Newsletters, information forums
  - The most important; organizational initiatives

## Corporate Social Responsibility (CSR)

- "Organization's obligation to maximize its positive impact on stakeholders and to minimize its negative impact."
- "the actions of an organization that are targeted towards achieving a social benefit over an above maximizing profits for its shareholders and meeting all its legal obligation."

## Levels of CSR

- Economic
  - Being profitable – maximizing value
- Legal
  - Abiding by laws
- Ethical
  - ?
- Philanthropic
  - Activities not required by business but promote human welfare and goodwill.

## Corporate Citizenship

- An alternative term for corporate social responsibility, implying that the organization is a responsible citizen in meeting all its obligations.
- What are those obligations ?
- Four dimensions:
  - Strong sustained economic performance
  - Rigorous compliance
  - Ethical actions beyond what law requires
  - Voluntary contributions that advance the reputation and stakeholder commitment of org
- Involves firm's philosophical commitment to corporate citizenship and measuring the implementation of those initiatives.

## Corporate Conscience

- An alternative term for corporate social responsibility, implying that the organization is run with an awareness of its obligation to the society.

## CSR levels ; another perspective ..

- Ethical CSR;
  - Organizations pursue a clearly defined sense of social conscience in managing their financial responsibilities to shareholders, their legal responsibilities to their local community and society as a whole, and their ethical responsibilities to "do the right thing" for all their stakeholders.

## CSR levels ; another perspective

- Altruistic CSR;
  - Organizations take a philanthropic approach by underwriting specific initiatives to give back to the company's local community or to designated national or international programs.
- Strategic CSR;
  - Philanthropic activities are targeted toward programs that will generate the most positive publicity or goodwill for the organization.

## Corporate Governance (CG) ..

- "the system by which business corporations are directed and controlled."
- "Formal system of accountability, oversight, and control to remove the opportunity for employees to make unethical decisions."
  - Accountability;
    - workplace decisions aligned to strategic direction
    - Also comply with ethical and legal considerations

## Corporate Governance (CG)

- Oversight;
  - Checks and balances in the system which limits
    - Opportunities to deviate from policies and strategies
    - Unethical and illegal activities
- Control;
  - Auditing and improvement of organizational decisions and actions

## Functions of CG

- System and processes
  - To prevent and detect misconducts/risks
  - Investigation and disciplining
  - Planning for recovery and continuous improvement
- Creates compliance and ethics culture
  - To make sure that integrity is the core of competitiveness

## Shareholder Model of CG

- Goal of maximizing profits for investors
- Development and improvement of the formal system;
  - Which maintains performance accountability between top management and the shareholders.
- Drive firm decisions to best services of its investors – classic agency problem
- Single focus model – CG required to balance

## Stakeholder Model of CG

- Broader view
- Identification of stakeholders
  - Primary
  - Secondary
- Long term relationship with stakeholders - corporate governance mechanism
  - Creating governance system
  - Stakeholder welfare aligned with corporate need and interests

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- BoDs are fiduciaries for the shareholders.
    - 'persons placed in positions of trust who use due care and loyalty in acting on behalf of the best interests of the organization'.
  - Duty of diligence; to make informed and prudent decisions
  - Duty of loyalty; all decisions should be in the interests of the corporation and its stakeholders.
  - Conflict of interest; when a director uses its position to obtain personal gains, at the expense of the organization.

## Role of BoDs

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- Creating an ethical culture that provides leadership, values and compliance.
- Legal responsibility for firm's resources and decisions.
- Appointment of top executive officers.
- Fiduciary duty
- Monitoring decisions made by executives on behalf of the company.
- Ultimate authority for the organization's effectiveness and performance.
- Accountability and transparency
- Executive compensation

## Stakeholder Perspective Implementation

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1. Assessing the corporate culture
2. Identifying stakeholder groups
3. Identifying stakeholder issues
4. Assessing organizational commitment to social responsibility
5. Identifying resources and determining urgency
6. Gaining stakeholder feedback