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BUS 428

Business Policy and Strategy

Module 4

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Published in 2021 by the National Open University of Nigeria

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Module 4

Unit 1 Social Responsibility Of Business

1.0 Introduction

The discussion of responsibilities of business to its environment which gained currency in the late nineteen century is still claiming more media time and space today. In the early days of business organisation, it was generally agreed that business have only one objective, and that is to make profit to maximise the return on the shareholder's capital. Investors were traditionally perceived as the sole beneficiary or business organisations. Over the years, however, the identification or corporate objective in simple profit or financial terms became challenged.

Business organisations operate as a sub system within the larger system which is the society. The unique development of modern business is its affiliation with a pluralistic society. A society comprising of variety of organisations-labour unions, shareholders, consumers, government at various levels, other businesses, management, voluntary organisations/ NGOs etc with some degree of autonomy, but none entirely independent. This means that business is a joint venture with many of these organisations. Businesses as well as the diverse group have got their needs and desires. But the need of these various groups sum up to make the needs of the society. Until the second half of the nineteenth century, business often paid little attention to these needs.

Business became faulted for putting too much emphasis on profit only and too little on human-welfare values. The business firm is the focal point today for many environmental forces that come to bear on business in general. Social forces and market forces operate competitively to influence business success.

No management can afford to ignore the environment in which it operate and the success of business organisations may depends to a large extent on their public image. Today, partly owing to the interdependencies of the many groups in our society, the social environment of business has increased. Modern business managers must continually be concerned with societal expectations by being socially responsible.

2.0 Objectives

At the end of this unit, you should be able to:

- define corporate social responsibility as a concept
- discuss the fundamental expectation of building continuing exchange flows with resource suppliers
- highlight and explain the areas of social responsibility

- state and comment on the arguments for and against the role of social responsibility as a business goal
- discuss the related issue of business ethics.

3.0 Main Content

3.1 The Concept of Social Responsibility

A business firm, like any other social institution, can endure only if it continues to contribute to the needs of society. And in our current topsy-turvy world, the actions of business firms, like all other facets of "the establishment," are being challenged. "Why should business wield so much power over the use of materials, labour, capital, and other resources?" is a typical probe. It is important, then, that present – and aspiring – business managers understand how the companies they direct help meet social needs.

The concept of social responsibility is far from clear. Some idealists would like to include every reform that is socially desirable. But business executive have neither the competence nor the means to undertake improvements in prisons, churches, classrooms, and other areas remote from their normal activity. So, to give practical meaning to the idea, we need an approach to social responsibility for business managers that relates to action and outcomes directly affected by executive decisions.

A useful approach is to think of a manager as a resource converter. From the viewpoint of society, an enterprise justifies its existence by converting resources into desired outputs. (1) Resource inputs of labor, materials, ideas, government support, capital, and the like are converted by a firm into (2) Output of goods, services, employment, stimulating experiences, markets, and other things desired by those who provide the inputs. The job of central managers is to design and maintain a converting mechanism that will generate continuing flows of these inputs and outputs.

An auto garage, for instance, converts labor, parts, machinery, and capital into auto repair services, jobs, rent, etc. likewise, a poultry farmer converts chicks, feed, labour, equipment, and other resources into outputs of eggs, meat.

3.1.1 Social Responsibility and Central Management

Civilised society depends on a continuing flow of resource conversions. And when we talk of the social responsibility of business managers, we are mainly concerned about the effectiveness and the side effects of resource conversions. This concept of central managers dealing primarily with resource conversion puts the emphasis on constructive action. Three basic elements are involved: (1) building continuing exchange flows with resource suppliers, (2) designing an internal conversion technology, and (3) integrating and balancing the external and internal flows.

3.2 Building Continuing Exchange Flows With Resource Suppliers

The relationship with each resource supplier always involves an exchange. Figure 4.0 shows these flows for five typical outside groups. For a specific company there will be a wider variety of subgroups, but the underlying concept is the same. Each group of contributors provides a need resource and receives in exchange part of the outflow of the enterprise.

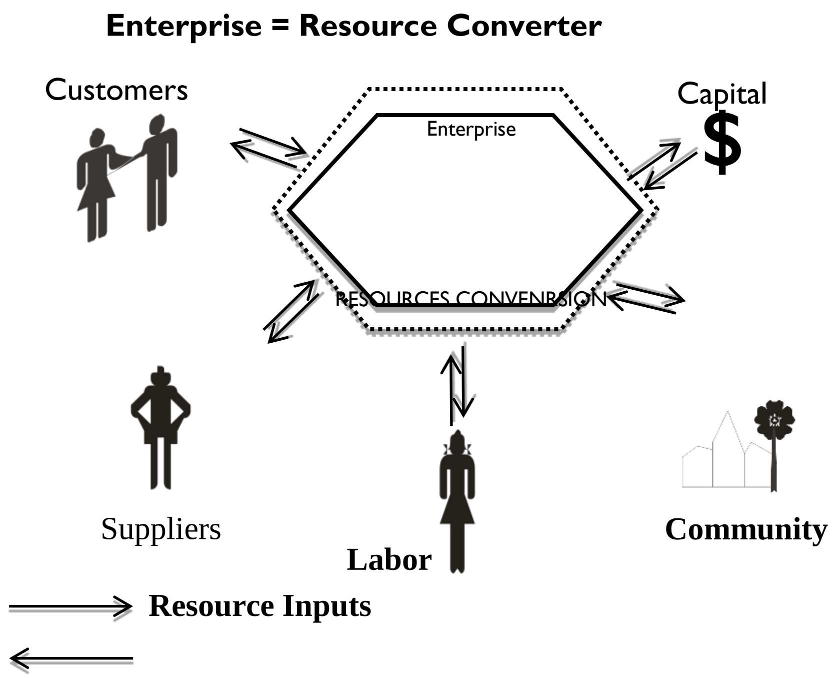

Fig. 4.0: The Exchange Relationship among Resource Suppliers

Source: Newman, H.N; Logan, J.P and Hegarty, W.H (1985); *Strategy, Policy and Central Management*. Western Publishing Company. (9th ed). USA

Much more than money is involved. Typically, an array of conditions provides the basis for continuing cooperation. Employees, for instance, are concerned about meaningful work, stability of employment, reasonable supervision, future opportunities, and a whole array of fringe benefits in addition to their payment, convenient delivery times, and quality standards suited to their facilities, minimum returns, and the like.

Investors are concerned about uncertainty of repayment, security, and negotiability of their claims, veto of major changes, and perhaps some share in the management. For each resource contributor, mutual agreement about the conditions under which the exchange will continue is subject to evolution and periodic renegotiation. Because a steady flow of resources is necessary, wise central managers will:

1. Predict changes in conditions under which each resource group will be willing and able to continue its cooperation,

2. Conceive and promote revised exchanges of inputs and outputs that will (a) be attractive to the resource group and (b) be viable for the enterprise,

3. Start discussions of changes early to allow time for psychological as well as technical adjustments, and

4. Assist and work with other agencies concerned with the change.

Central managers devote a substantial part of their efforts to negotiating or guiding their subordinates in negotiating – these agreements covering the bases of cooperation. It is a never-ending process because in our dynamic world the needs of resource supplier shift, their power to insist on fulfilling their needs changes, and the value of their contribution to the enterprise varies. In fact, most of the widely discussed "social responsibility" issues deal with some modification of previous conditions of cooperation, such as those shown in Table 4-1.

Table 4.1: Some "Social Responsibility" Issues

Input Group	**Reason Prompting a Change**
Labor	Equal opportunity" for women and minorities
Investors	Inflations protection; public disclosure of information
Community	Environmental protection, growth in employment opportunities
Supplier of material	Predictable, long-run markets
Customers	"Consumerism" pressures for quality guarantees, informative labeling

The real core of social responsibility of a business executive is the maintenance of resources flows on mutually acceptable terms. And this is a very difficult assignment in time of rapidly changing values and expectations – as the succession of labour disputes and energy supply cries illustrates. But note that social responsibility, at least in our view, is not something new, tacked onto an executive's job. Rather, it is reflected in the recognition of shifting social needs and the approach an executive takes in adapting to them. The concept of social responsibility of business has failed to enjoy a settled definition. Indeed, the question of what social responsibility of business really is still occupies discussions today; there is no complete agreement. For example, a group of interviewed managers agreed with the definition that: "corporate social responsibility is seriously considering the impact of the company's action on society" (Koontz 1994).

Another dimension of the concept defined social responsibility as; business decision making linked to ethical values, compliance with legal requirements and respect for people, communities and the environment. But for our purpose, CRS is defined as operating in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. Social responsibility within this context refers to an organisation response to social needs. That is the way in which a business behaves toward other groups and individuals in its social environment: customers, other businesses, employees and investors. CRS is seen by company leadership as more than a collection of discrete practices of occasional gestures, or initiatives motivated by marketing public relations or other business benefits.

Rather it is viewed as a comprehensive set of policies, practice and programmes that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management. In this sense, social responsibility is an attempt to balance different commitments. It may therefore be summarised that the social responsibility of business dynamic resources converter on a continuous basis. From the view the society, an enterprise justifies its existence by converting resource inputs of labour, materials, ideals, government supports, capital etc. into output of goods, services, employments, stimulating experiences, markets, general welfare, community values etc. desired by those who provide the inputs. Hence all actions fundamentally taken by a business which to some extent helps society to achieve one or more of its objectives are socially responsible actions.

Various research evidences have shown that modern business leaders are themselves renewing pleas for a strong emphasis on socially responsible actions by corporate leader. The fact is that the public expects business managers to contribute a good deal more toward achieving the goals of a good society and many business people have also found out that by accepting to be socially responsible, they are equally enhancing their image and making more profit. However, the readiness of the business people to accept responsibilities has been attributed to the following reasons:

1. The separation of ownership and management in modern business

2. The represent level of interdependencies of the many organised groups in the society that represent various interests.

3. That influence of the increased level of education of managers.

4. The insistence of public opinion, and to some extent government regulations for business to be responsive to its community obligations.

5. To a large extent also, social responsibility reflects the ethics of the individuals employed by a firm-especially its top management.

3. 3 Areas of Social Responsibility

A business organisation is typically confronted by a number of specific areas of concern when defining its sense if social responsibility. The following specific areas of concern are notable responsibilities toward the shareholders, customers, employees, environment community and to the government.

Responsibilities to the Shareholders

Despite being owners of a company a firm can still act irresponsibly toward its investors. This is can be through the abuse of a firm's financial resources and by misrepresentation of a company finances by not conforming to generally accepted accounting practices especially when reporting a firm's financial status. A company's obligations to the shareholders in respect of returns on their investment which required firms to manage their resources and more specifically to:

1. Honestly disclose the company's financial transaction

2. Secure owner's investment and then try to provide a reasonable return it

Responsibility toward customers

Fundamentally, the social and economic justification for the existence of a business is its ability to satisfy its customers. A company's this obligation through the medium of its product or service and unless it fulfills this purpose, a firm should not exist. Much of the current interest in business responsibility toward customers can be traced to the rise of **consumerism:** Social activism dedicated to protecting the rights of consumers in their dealings with businesses. Specific social responsibilities to the customer include;

1. Providing quality product

2. Fair product pricing

3. Fulfilling contractual obligations to others.

Responsibility to Employees

Social responsibility toward employees requires firm to respect workers both as resources and as people who are productive when their needs are met. Specific responsibilities to employees would therefore include:

1. Provision of good working conditions for employees with regard to their health and safety

2. Existence of adequate opportunity for management employee communication

3. Training opportunity for all level with great prospects for promotion

4. Deliberate effort at fostering good human relations in the work place.

Indeed, the entire personnel activities – recruiting, training, promoting and compensating – are specific basis for social responsibility toward employees. For example, a company that provides its employees with opportunities for promotion with regard race, sex or other irrelevant factors is meeting its social responsibilities.

Responsibility toward the Environment

Environmental pollution in all its forms is a major problem for society. It is damaging crops and exposing human and other living beings to health hazards. Chiefly from the air, water, a land and even noise, pollution remains the greatest problems in need of solutions from both governments and businesses. The public has become increasingly aware of what is happening to them and water as essential to its existence as the case of the oil producing Niger Delta region of Nigeria is classical to mention. This and other ecological disasters have become a significant challenge to contemporary business.

Society is particularly critical of business for not only putting too much emphasis on the profit objective but also for her unwillingness to accept more responsibility to work with government to improve the environment; and where they accept, for making slow progress. Social responsibility toward the environment therefore required firms to minimise pollution of air, water and land. Business organisations are expected to comply with and meet existing legislative standards pertaining to environmental pollutions. Yet again, companies are to spend massively to clean put the environment and to take further corrective action.

Responsibilities to the Community

The community has a multitude of needs arising from the various needs desires of the many organised groups in our society. Often time business organisations are looked or called upon to provide some of the needed resources. Obviously businesses must act in ways that enhance the community's well-being; but no legislation forces business firms to contribute to the police, education, sport, charity homes etc. A whole lot of business enterprises are however putting something back to the community. In Nigeria, companies like Seven-up Bottling Plc, Nestle, Union Bank and others are involved in acts of community development through charitable donations and sponsorships.

Business organisations must create good relationships with the public at large and, in the local area(s) of operation and refrain from causing damages or nuisance to property or persons as the result of industrial or other activities.

Responsibility towards the Government

Business enterprises operate successfully because the legal system is in their favour. Government affects virtually every enterprise and every aspect of life. With respect to business, and government constitute the biggest customers, purchasing goods and services. Companies should in return to some of these privileges' from the government perform their obligations to the government. This may or not be compulsory. The compulsory responsibilities include.

1. Payment of taxes promptly and honesty

2. Obedience to laws regulating business operations

3. Insurance of the fixed assets

Non-compulsory responsibility involves company's generous donations to financially assist government toward schools, hospitals, and sport etc.

3.4 Arguments for and Against the Role of Social Responsibility as a Business Goal

Today many businesses are involved socially responsible actions in spite of lack of complete agreement as to what the social responsibility of business really is? This dramatic difference of opinion concerning the role of social responsibility as a business goal, thus, requires careful examination of the arguments for and against such social actions. Some people, for example, oppose any business activity that threatens profit. At the opposite extreme are those who argue that social responsibility must take precedence over profits. Below are different shades of opinions on this issue.

Arguments for Social Responsibility

Advocate of corporate social responsibility generally agree that:

1. Industrial society faces serious human and social problems brought about largely by the rise of large corporation, and

2. Managers must conduct the affairs of the corporation in ways to solve or at least ameliorate these problems.

On the basis of these assumptions, they argue that it is in the long-run self-interest of business to be socially responsible. This long-run self-interest view essentially holds that if business is to have a healthy climate in which to exist in the future, it must take actions now that will ensures its long-term viability.

It is also argued that failure to take voluntary action to solve or ameliorate the human and social problems generated by business will force government to intervene on behalf of society and regulate the offending business activities. A third reason for advocating corporate social responsibility is that business has the resource to solve some of the social problems that it generates. Not only does business have the managerial know-how, and technology, it also has the financial resources to fight environmental pollution, produce safe products, engage in fair advertising etc.

Through involvement in social responsibility, the company is able to build and maintain is corporate image and ensure its long-run survival. Generally, the firm that demonstrates a good sense of social responsibility earns the respects and loyalty of customers, employees, shareholders, suppliers and the community in which it does business. As such it gains government recognition, a merit award and generally improves its relations with government.

One final point is that "pro-acting is better than reacting". This position holds that it business pro-acts-anticipates and initiates, then this is a preferable and less costly posture than simply reacting to problems as they arise.

Argument against Social Responsibility

On the other hand, there are those who are strongly opposed to the idea of corporate social responsibility. Milton Friedman for example argued that business only has one responsibility: to maximise profit for owners; and that social matters are not immediate concern of business people. A Second major objection to social responsibility is that business is not equipped to handle social problems. This position holds that managers of business enterprise do not have the necessary expertise-social skills – to make social decisions other reasons against the concept include:

1. Involvement in social responsibility activities will dilute business primary purpose
2. It will reduce the level of profit.
3. The cost of social responsibility activities will lead to high production cost that will result in high product prices. That is, final consumer bears the ultimate burden.
4. Business already has enough power-economic, technological and environment. Why should we place into business hands the opportunity to wield additional power?
5. That business will be at a disadvantaged position in its international balance of payments calculation, since added cost of product will make companies increase prices and thus become less competitive in international markets.

1. That government intervention to compel organisations to embark on socially responsible activities, will lead to corporate protectionism, withdrawal, breach of contracts, and resultant litigations.

4.0 Conclusion

Strategists the world over agree that organisations have tremendous social obligations. Strategists should however examine social problems in terms of potential costs and benefits to the firm, and focus on social issues that could benefit the firm most.

5.0 Summary

A useful approach is to think of a manager as a resource converter. From the viewpoint of society, an enterprise justifies its existence by converting resources into desired outputs. (1) Resource inputs of labor, materials, ideas, government support, capital, and the like are converted by a firm into (2) Output of goods, services, employment, stimulating experiences, markets, and other things desired by those who provide the inputs. The job of central managers is to design and maintain a converting mechanism that will generate continuing flows of these inputs and outputs.

6.0 Self-Assessment Exercise

Would you subscribe to the argument that business is not equipped to handle social problems? Defend your answer.

7.0 References/Further Reading

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Unit 2 Business Ethics

1.0 Introduction

In our competitive system of today, there is an immediate tension between ethics and business. The ideal of being a good citizen often is limited or replaced by the ideal of the acquisitive individual winner. Beginning in the last half of the 20th Century, the human race has become aware that its economic activities on earth are causing major threats to our environment, to our health and survival as well as to all life on our planet. All economies today therefore face the same fundamental issues of responsible business conduct—product quality, transparency in financial matters, workplace health and safety, protection of the environment, protection of workers, and compliance with laws and industry standards.

2.0 Objectives

At the end of this unit, you should be able to:

- define the concept of ethics and clarify it different levels
- state the reasons for the importance of ethics in business operations
- benefits of business ethical behaviour
- build a responsible business enterprise
- discuss ethics as an integral part of building responsible business enterprise
- explain the extent of sustainability as a key goal for business ethics.

3.0 Main Content

3.1 Conceptual Mining

Business ethics is a form of applied ethics. It aims at inculcating a sense within a company's employee population of how to conduct business responsibly. Whilst there will inevitably be disagreements about what exactly constitutes 'ethical' business activity, it is possible at least to offer a fairly uncontroversial definition of the subject itself.

Good management requires the elimination of fraudulent practices that can damage the firm's reputation and subject it to costly civil and criminal liability. Ethical management similarly requires the suppression of dishonest practices that contravene fundamental normative principles and otherwise lack integrity. Some of the controversies regarding business ethics are no doubt, due to different understandings of what constitutes morality or ethics in the first place. In common usage, the terms 'ethics' and 'morality' are often used interchangeably. In many ways, it is probably true to say that this does not pose many real problems for most of us in terms of communicating and understanding things about business ethics.

However, in order to clarify certain arguments, many academic writers have proposed clear differences between the two terms. Unfortunately, though, different writers have sometimes offered somewhat different distinctions, thereby serving more to confuse us than clarify our understanding. Nonetheless, we do agree that there are certain advantages in making a distinction between 'ethics' and 'morality', and following what we feel is the most common and useful way of distinguishing them, we offer the following distinction:

Morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community**.**

Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation. These rules and principles are called ethical theories**.**

In this way of thinking then, morality precedes ethics, which in turn precedes ethical theory (see Figure 2.1). All individuals and communities have morality, a basic sense of right or wrong in relation to particular activities. Ethics represents an attempt to systematise and rationalise morality, typically into generalised normative rules that supposedly offer a solution to situations of moral uncertainty. The outcomes of the codification of these rules are ethical theories, such as rights theory or justice theory.

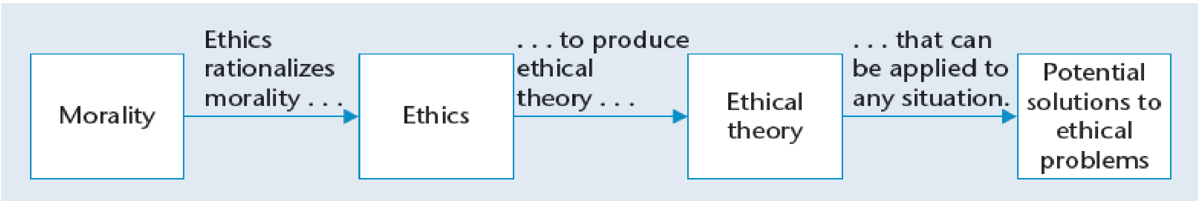

Fig.2.1: The Relationship between Morality, Ethics, and Ethical Theory

Source: Oliva, L. (2004). Ethics Edges on to Courses. Corporate Social Responsibility. Business Schools are taking the Training of Ethical Managers Seriously. *Financial Times* – London Edition

So, in a nutshell, here is what we regard the subject of business ethics as:

Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed**.**

It is worth stressing that by 'right' and 'wrong' we mean morally right and wrong as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by 'business' ethics, we do not mean only commercial businesses, but also government businesses, pressure groups, not-for-profit businesses, charities, and other organisations .

For example, questions of how to manage employees fairly, or what constitutes deception in advertising, are equally as important for organisations such as Lever Brothers, the University of Nigeria, or the Peoples Democratic Party of Nigeria as they are for Shell, Peugeot, or Ecobank. Business ethics is therefore more than just social responsibility. It covers the ethical behavior of the management as well. Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed**.**

Levels of Business Ethics

There are three levels of business ethics, according to Quinn (1997), to consider in deciding a strategy.

Macro Level

This concerns ethical issues at national and international levels. It may include consideration of a national/social system to international relations.

Corporate Level

At the corporate level, a company should be concerned with how some of its strategies affect ethical issues e.g. products that cause environment problems, or scheme that encourage employee exploitation etc.

Individual Level

This only applies when the individual occupying a position of influence e.g. a senior manager. Decisions that have business ethics implications made by such managers are made personally accountable.

3. 2 Why is Business Ethics Important?

There are many reasons why business ethics might be regarded as an increasingly important area of study, whether as students interested in evaluating business activities, or as managers seeking to improve their decision-making skills. Here they are the main reasons we think that a good understanding of business ethics is important:

1. The power and influence of business in society is greater than ever before. Evidence suggests that many members of the public are uneasy with such developments. Business ethics helps us to understand why this is happening, what its implications might be, and how we might address this situation.

2. Business has the potential to provide a major contribution to our societies, in terms of producing the products and services that we want, providing employment, paying taxes, and acting as an engine for economic development, to name just a few examples.

3. Business malpractices have the potential to inflict enormous harm on individuals, on communities and on the environment. Through helping us to understand more about the causes and consequences of these malpractices, business ethics seeks, as the founding editor of the Journal of Business Ethics has suggested, 'improving the human condition'

4. The demands being placed on business to be ethical by its various stakeholders are constantly becoming more complex and more challenging. Business ethics provides the

means to appreciate and understand these challenges more clearly, in order that firms can meet these ethical expectations more effectively.

5. Few business people in Africa and elsewhere have received formal business ethics education or training. Business ethics can help to improve ethical decision making by providing managers with the appropriate knowledge and tools that allow them to correctly identify, diagnose, analyse, and provide solutions to the ethical problems and dilemmas they are confronted with.

6. Ethical infractions continue to occur in business. Business ethics provides us with a way of looking at the reasons behind such infractions, and the ways in which such problems might be dealt with by managers, regulators, and others interested in improving business ethics.

7. Business ethics can provide us with the ability to assess the benefits and problems associated with different ways of managing ethics in organisations.

8. Finally, business ethics is also extremely interesting in that it provides us with knowledge that transcends the traditional framework of business studies and confronts us with some of the most important questions faced by the society. The subject can therefore be richly rewarding to study because it provides us with knowledge and skills which are not simply helpful for doing business, but rather, by helping us to understand modern societies in a more systematic way, can advance our ability to address life situations far beyond the classroom or the office desk.

3. 3 Benefits of Business Ethical Behaviour

Businesses around the world are designing and implementing business ethics programmes to address the legal, ethical, social responsibility, and environmental issues they face. By addressing these issues in a systematic way, enterprises can improve their own business performance, expand opportunities for growth, and contribute to the development of social capital in their markets. They can realise specific business benefits, such as:

1. Enhanced reputations and good will
2. Reduced risks and costs
3. Protection from their own employees and agents
4. Increased profits
5. Stronger competitive positions
6. Sustained long-term growth
7. Expanded access to capital, credit, and foreign investment
8. International respect for enterprises and emerging markets.

Enterprises that excel in these areas create a climate of excellence for their employees, shareholders, and communities, and contribute to the economic wellbeing of their countries.

3. 4 Building a Responsible Business Enterprise

Business ethics are an integral part of responsible business conduct. They describe an organisation's commitment to a set of commonly understood core values and principles, which provide a basis for business decisions and conduct. Typically, business ethics presume that decisions will conform to standards articulated in law and regulations; internal policy and procedures; a set of core values determined by owners and managers, including honesty, integrity, respect, and fairness; and commercial principles such as profitability, customer satisfaction, product quality, health, safety, and efficiency. Business ethics issues range from practical, immediate ones, such as an enterprise's duty to be honest with its employees and customers, to broader social and philosophical questions, such as a company's responsibility to contribute to the welfare of the community and to preserve the environment. Each enterprise nevertheless has a unique ethical character.

This character quietly guides what its members think, say, and do. It influences how external stakeholders view the enterprise. As figure 3 suggests, an enterprise's identity as a responsible business enterprise (RBE) has at least four levels: compliance, risk management, reputation enhancement, and value added. Setting objectives in all four levels—and achieving them—is a goal of a business ethics programme. The identity of an RBE reflects how well it meets its responsibilities as a member of a community. Responsible businesses conduct—ethics, compliance, and social responsibility—are an essential part of this identity. It influences the way the enterprise sees itself and the way the community views the enterprise.

Indeed, how the enterprise deals with responsible business conduct issues may be the most important aspect of defining an enterprise's identity.

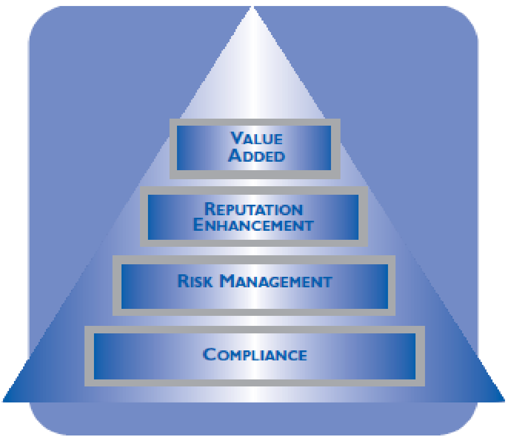

Fig.2.2: Levels of an Enterprise's Identity

Source: Kenneth W. Johnson & Igor Y. Abramov (2005). *Business Ethics; a Publication of the Good Governance Programme.* A Manual for Managing a Responsible Business Enterprise in Emerging Market Economies.

A business ethics programme provides the essential core of the competitive strategy of an RBE. Programmes more limited in purpose—called ethics and compliance programmes—typically address the two lowest levels because compliance and risk management are the most obvious levels of identity. However, a business ethics program addresses the higher levels as well—reputation enhancement and value added—in a systematic way. A business ethics programme helps an enterprise establish the essence of its identity in the community: its core purpose, core values, and envisioned future. It is an effective tool for establishing standards and procedures to ensure that enterprise values are reflected in all that employees and agents think, say, and do. A business ethics program employs a systematic process to reach a wide range of stakeholders more effectively so that it achieves its expected program outcomes.

3.4 Impact of Values and Ethics on Corporate Strategy

The corporate strategy is greatly affected by the values, ethics, and motives of the people who are involved in its formulation process. In formulating corporate strategy, managers cannot isolate their feelings, and preferences from economic considerations. Normally, there is a tendency on the part of mangers to impose their preference and priorities in the process of strategy implementation. Corporate strategy is affected by personnel values of the chief executive and of the key executives, right from the stage of setting objectives. For instance, a chief executive with high profit orientation would give priority to those areas which generate higher rate of return while setting objectives, whereas a chief executive with high social orientation would give greater importance to social factors or areas while setting objectives.

The personal values and perceptions of top executives are reflected in operational policies framed to execute the strategy. For instance, a participate leader would encourage his subordinate to take part in framing suitable policies required to implement the strategy, whereas a dominant autocratic leader would himself frame the policies and impose them on his subordinates to implement the strategy.

Reconciliation - the conflict of personal values and strategy there is often a conflict between personal values and rational business strategy. For strategy to be effectively implemented in the organisations there is a need for commitment and support on the part of top executives including the chief executives. Therefore, personal values and preferences of the top executives must be given considerations and a strategy based on rational considerations needs to be modified. Such a modification in the strategy would receive support from the top executives as far as its implementation is concerned, as they know that their values and preferences are in taken into account.

In any organisation there is a need to reconcile between the rational economic strategy and the personal values and preferences of the key executives of the organisation, and also the conflict among the key executives. The conflict can be resolved by making an attempt to analyse the values and preferences of different executives and then to apprise them of such analysis so that they may be fully aware of the prejudices and biases, which influence their behaviour. Such analysis may help the executives to do way with certain values and preferences, which are not conducive for the growth of the organisation. For instance, in one the organisations, a new chief executive was appointed, who was born and brought in posh environment, wanted rich interiors and exteriors of the company's head office, involving huge sum of money, was finally convinced by the finance director that such heavy spending would drain company's funds and that the company may face acute cash crunch.

Reconciliation of conflicts among individual values and preferences for the formulation and implementation of strategy needs imagination, and cooperative spirit on the part of executives. They must sort out their differences, and modify their values and preferences in the interest of the organisation. One of the best alternatives is to appoint an external expert to frame sound economic strategy with the support of the top executives of the organisation, and the top executives should not unduly influence upon the external expert of their personal values and preferences. However, it is to be noted that if personal values and preferences are vital to the interest of the organisation, then such values must considered in framing and implementing the strategy of the organisation.

4.0 Conclusion

Repeated unethical conduct below the customary standards in a society generally results in punishment or an additional cost imposed by the community. This chapter concludes that commerce and industry can be an activity in the interest of all parties and society if behaved ethically and in a socially responsible manner. At an individual level if a company sells a useful product, it renders a service to the buyer. At a macro level commerce and industry generally raise the level of wealth and alleviate poverty.

5.0 Summary

No society anywhere in the world can compete very long or successfully with people stealing from one another or not trusting one another, with every bit of information requiring notarized confirmation, with every disagreement ending up in litigation, or with government having to regulate businesses to keep them honest. Being unethical is a recipe for headaches, inefficiency, and waste. History has proven that the greater the trust and confidence of people in the ethics of an institution or society, the greater its economic strength. Business relationships are built mostly on mutual trust and reputation. This unit has essentially dealt with the critical issues of Business social responsibilities and ethics.

6.0 Self-Assessment Exercise

How would you define the following terms; (i) Ethics and (ii) Business Ethics? How can firms' best ensure that their code of business ethics ensure is read, understood, believed, remembered, and acted on, rather than ignored?

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Unit 3 Global Issues in Strategic Management – The Global Challenges, Strategies for Competing In Global Markets, Local Markets and Cultural Variations

1.0 Introduction

Globalisation is the process of linking a nation's economy with the global economy. The policy initiated by the Government of India in the form of structural reforms through liberalisation, privatisation and Globalisation will enable the country to become an active participant in the global market. The business community particularly the large business houses concerned with exporting, how to understand the message of Globalisation in the right perspective.

2.0 Objectives

At the end of this unit, you should be able to:

- define the concept of globalisation
- comment on the impact of strategic management on globalisation
- explain electronic commerce and its impact
- discuss global challenges in strategy implementation
- describe the stages of international development
- explain the centralisation or decentralisation of authority in organisations.

3.0 Main Content

3.1 Definitions of Globalisation

Globalisation is not only a very controversial topic in the public debate; it is also a much contested term in academic discourse. Apart from the fact that – mirroring the public debate – the camps seems to be divided into supporters and critics, there is growing concern about whether Globalisation is a fact at all. So, for example, some argue that there is nothing like a 'global' economy, because roughly 90 per cent of world trade only takes place either within or between the three economic blocks of the EU, North America, and East Asia, leaving out all other major parts of the globe.

The controversy notwithstanding, globalisation has been defined as the functional integration of national economies within the circuits of industrial and financial capital. McGrew and Lewis particularly defined globalisation as a set of processes which embrace most of the globe or which operate worldwide; the concept therefore has a special connotation. On the other hand it also implies intensification in the levels of interaction, interconnectedness or interdependence between the state and societies which constitute the world community".

Impact of Globalisation

Today, everything has changed. Globalisation, the internationalisation of markets and corporations, has changed the way modern corporations do business. To reach the economies of scale necessary to achieve the low costs, and thus the low prices, needed to be competitive, companies are now thinking of a global (worldwide) market instead of a national market. Nike and Reebok, for example, manufacture their athletic shoes in various countries throughout Asia for sale on every continent. Instead of using one international division to manage everything outside the home country, large corporations are now using matrix structures in which product units are interwoven with country or regional units. International assignments are now considered key for anyone interested in reaching top management.

As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and position the company for long-term competitive advantage. For example, Maytag Corporation purchased Hoover not so much for its vacuum cleaner business, but for its European laundry, cooking, and refrigeration business. Maytag's management realised that a company without a manufacturing presence in the European Union (EU) would be at a competitive disadvantage in the changing major home appliance industry. See the global issue feature to learn how regional trade associations are changing how international business is conducted. Similar international considerations have led to the strategic alliance between Air India and Lufthansa and to the merger between Daimler-Benz and Chrysler Corporation.

3.2 Impact of Electronic Commerce

Electronic commerce refers to the use of the internet to conduct business transactions. A 1999 survey conducted by Booz-Allen & Hamilton and the economist intelligence unit of more than 525 top executives from a wide range of industries revealed that the Internet is reshaping the global marketplace and that it will continue to do so for many years. More than.90% of the executives believed that the internet would transform or have a major impact on their corporate strategy within two years.

According to Matthew Barrett, chairman and CEO of the Bank of Montreal, "We are only standing at the threshold of a new world. It is as if we had just invented printing or the steam engine. Not only is the Internet changing the way customers, suppliers, and companies interact, it is changing the way companies work internally. In just the few years since its introduction, it has profoundly affected the basis of competition in many industries. Instead of the traditional focus on product features and costs, the Internet is shifting the basis for competition to a more strategic level in which the traditional value chain of an industry is drastically altered.

A 1999 report by AMR research indicated that industry leaders are in the process of moving 60 to 100% of their business to business (B2B) transactions to the internet. The net B2B marketplace includes:

a. Trading exchange platforms like Verticalnet and Technologies Tradematrix, which support trading communities in multiple markets

b. Industry sponsored exchanges, such as the one being built by major automakers; and

c. Net market makers, like e-steel, NECX, and build point, which focus on a specific industry's value chain or business processes to mediate multiple transactions among businesses.

The Garner Group predicts that the worldwide B2B market will grow from $145 billion in 1999 to $7.29 trillion in 2004, at which time it will represent 7% of the total global sales transactions. The above mentioned survey of top executives identified the following seven trends, due at least in part, to the rise of the Internet:

1. The Internet is forcing companies to transform themselves. The concept of electronically networking customers, suppliers, and partners is now a reality.

2. New channels are changing market access and branding, causing the disintermediation (breaking -down) of traditional distribution channels. By working directly with the customers, companies are able to avoid the usual distributors, thus forming closer relationships with the end users, improving service, and reducing costs.

3. The balance of power is shifting to the consumer. Now having unlimited access to information on the internet, customers are much more demanding than their "non wired" predecessors.

4. Competition is changing. New technology- driven firms plus older traditional competitors are exploiting the internet to become more innovative and efficient.

5. The pace of business is increasing drastically. Planning horizons, information needs, and customer/supplier expectations are reflecting the immediacy of the internet. Because of this turbulent environment, time is compressed into "dog years" in which one year feels like seven years.

6. The internet is pushing corporations out of their traditional boundaries. The traditional separation between suppliers, manufacturers, and customers is becoming blurred with the development and expansion of extranets, in which cooperating firms have access to each other's internal operating plans and processes. For example, Bharat Petroleum Corporation Limited (BPCL), the Indian PSU oil major has networked with satellite unlinking through KU band. The technology can be further used to network the retail outlets for better market response and monitoring. Various interesting alternative uses of this technology are feasible which are being studied and would be deployed suitably.

7. Knowledge is becoming a key asset and a source of competitive advantage. For example, physical assets accounted for 62.8% of the total market value of U.S. manufacturing firms in 1980 but only 37.9% in 1991. The remainder of the market value is composed of intangible assets, primarily intellectual capital.

3.3 Global Challenges in Strategy Implementation

An international company is one that engages in any combination of activities, from exporting/ importing to full-scale manufacturing, in foreign countries. The multinational corporation (MNC), in contrast, is a highly developed international company with a deep involvement throughout the world, plus a worldwide perspective in its management and decision making. For a multinational corporation to be considered global, it must manage its worldwide operations as if they were totally interconnected. This approach works best when the industry has moved from being multi domestic (each country's industry is essentially separate from the same industry in other countries; an example is retailing) to global (each country is a part of one worldwide industry; an example is consumer electronics).

Strategic alliances, such as joint ventures and licensing agreements, between a multinational company (MNC) and a local partner in a host country are becoming increasingly popular as a means by which a corporation can gain entry into other countries, especially less developed countries. The key to the successful implementation of these strategies is the selection of the local partner. Each party needs to assess not only the strategic fit of each company's project strategy, but also the fit of each company's respective resources.

A successful joint venture may require as much as two years of prior contacts between both parties. The design of an organisation's structure is strongly affected by the company's stage of development in international activities and the types of industries in which the company is involved. The issue of centralisation versus decentralisation becomes especially important for a multinational corporation operating in both multi domestic and global industries.

Regional Trade Associations Replace National Trade Barriers

Previously known as the common market and the European Community, the European Union (EU) is the most significant trade association in the world. The goal of the EU is the complete economic integration of its 15 member countries-Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom-so that goods made in one part of western Europe can move freely without ever stopping for a customs inspection. One currency, the Euro, is being used throughout the region as members integrate their monetary systems.

The steady elimination of barriers to free trade is providing the impetus for a series of mergers, acquisitions, and joint ventures among business corporations. The requirement of at least 60% local content to avoid tariffs has forced many American and Asian companies to abandon exporting in favor of a strong local presence in Europe.

The EU has agreed to expand its membership to include the Czech Republic, Hungary, Estonia, Poland, Malta, Cyprus, and Slovenia by 2004; Latvia, Lithuania, and Slovakia by 2006; and Bulgaria and Romania by 2010. Turkey is being considered for admission in 2011. Canada, the United States, and Mexico are affiliated economically under the North American Free Trade Agreement (NAPTA). The goal of NAFTA is improved trade among the three member countries rather than complete economic integration. Launched in 1994, the agreement requires all three members to remove all tariffs among themselves over 15 years, but they are allowed to have their own tariff arrangements with nonmember countries. Cars and trucks must have 62.5% North American content to qualify for duty-free status.

Transportation restrictions and other regulations are being significantly reduced. Some Asian and European corporations are locating operations in one of the countries to obtain access to the entire North American region. Vicente Fox, President of Mexico, is proposing that NATTA become more like the European Union in that both people and goods would have unlimited access across borders from Mexico to Canada. In addition, there have been some discussions of extending NAFTA southward to include Chile, but thus far nothing formal has been proposed.

South American countries are also working to harmonize their trading relationships with each other and to form trade associations. The establishment of the Mercosur (Mercosul in Portuguese) free-trade area among Argentina, Brazil, Uruguay, and Paraguay means that a manufacturing presence within these countries is becoming essential to avoid tariffs for non-member countries. Claiming to be NAFTAs southern counterpart, Mercosur has extended free-trade agreements to Bolivia and Venezuela. With Chile and Argentina cooperating to build a tunnel through the Andes to connect both countries, it is likely that Chile may soon form some economic relationship with Mercosur.

Asia has yet no comparable regional trade association to match the potential economic power of either NAFTA or the EU. Japan, South Korea, China, and India generally operate as independent economic powers. Nevertheless, the Association of South East Asian Nations (ASEAN)-composed of Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietriam-is attempting to link its members into a borderless economic zone. Increasingly referred to as ASEAN+3, it is already including China, Japan, and South Korea in its annual summit meetings. The ASEAN nations are negotiating the linkage of the ASEAN Free Trade Area (AFTA) with the existing FTA of Australia and New Zealand. With the EU extending eastward and NAFTA extending southward to someday connect with Mercosur, pressure is already building on the independent Asian nations to soon form an expanded version of ASEAN.

3.4 Stages of International Development

Corporations operating internationally tend to evolve through five common stages, both in their relationships with widely dispersed geographic Markets and in the manner in which they structure their operations and programs. These stages of international development are:

Stage I Domestic company- The primarily domestic company exports some of its products through local dealers and distributors in the foreign countries. The impact on the organisation's structure is minimal because an export department at corporate headquarters handles everything.

Stage 2 Domestic company with export division- Success in Stage I leads the company to establish its own sales company with offices in other countries to eliminate the middlemen and to better control marketing. Because exports have now become more important, the company establishes an export division to oversee foreign sales offices.

Stage 3 Primarily domestic company with international division- Success in earlier stages leads the company to establish manufacturing facilities in addition to sales and service offices in key countries. The company now adds an international division with responsibilities for most of the business functions conducted in other countries.

Stage 4 Multinational Corporation with multidomestic emphasis- Now a full-fledged multinational corporation, the company increases its investments in other countries. The company establishes a local operating division or company in the host country, such as HLL of Unilevers, to better serve the market.

The product line is expanded, and local manufacturing capacity is established. Managerial functions product development, finance, marketing, and so on are organised locally. Over time, the parent company acquires other related businesses, broadening the base of the local operating division. As the subsidiary in the host country successfully develops a strong regional presence, it achieves greater autonomy and self-sufficiency. The operations in each country are, nevertheless, managed separately as if each is a domestic company.

Stage 5 Multinational Corporation with global emphasis - The most successful multinational corporations move into a fifth stage in which they have worldwide personnel, R&D, and financing strategies. Typically operating in a global industry, the MNC denationalises its operations and plans product design, manufacturing, and marketing around worldwide considerations. Global considerations now dominate organisational design. The global MNC structures itself in a matrix form around some combination of geographic areas, product lines, and functions. All managers are now responsible for dealing with international as well as domestic issues.

Research provides some support for the stages of international development concept, but it does not necessarily support the preceding sequence of stages. For example, a company may initiate production and sales in multiple countries without having gone through the steps of exporting or having local sales subsidiaries. In addition, any one corporation can be at different stages simultaneously with different products in different markets at different levels. Firms may also leapfrog across stages to a global emphasis. Developments in information technology are changing the way business is being done internationally. See the global issue feature to see how FedEx is using its expertise in information technology to help customers sidestep the building of a costly logistical infrastructure to take advantage of global markets. Nevertheless the stages concept provides a useful way to illustrate some of the structural changes corporations undergo when they increase their involvement in international activities.

3.5 Centralisation versus Decentralisation

A basic dilemma a multinational corporation faces is how to organise authority centrally so that it operates as a vast interlocking system that achieves synergy, and at the same time decentralise authority so that local managers can make the decisions necessary to meet the demands of the local market or host government. To deal with this problem, MNCs tend to structure themselves either along product groups or geographic areas. They may even combine both in a matrix structure-the design chosen by 3M Corporation and Asea Brown Boveri (ABB), among others. One side of 3M's matrix represents the company's product divisions; the other side includes the company's international country and regional subsidiaries.

The product-group structure of American Cyanamid enables the company to introduce and manage a similar line of products around the world. This enables the corporation to centralise decision making along product lines and to reduce costs. The geographic-area structure of Nestl6, in contrast, allows the company to tailor products to regional differences and to achieve regional coordination. This decentralises decision making to the local subsidiaries. As industries move from being multi-domestic to more globally integrated, multinational corporations are increasingly switching from the geographic-area to the product-group structure. Texaco, Inc., for example, changed to a product-group structure by consolidating its international, U.S., and new business opportunities under each line of business at its White Plains, New York, headquarters. According to chairman Peter Bijur, "by placing groups which will perform similar work in the same location, they will be able to share information, ideas, and resources more readily-and move critical information throughout the organisation.

Simultaneous pressures for decentralisation to be locally responsive and centralisation to be maximally efficient are causing interesting structural adjustments in most large corporations. Companies are attempting to decentralise those operations that are culturally oriented and closest to the customers -manufacturing, marketing, and human resources. At the same time, the companies are consolidating less visible internal functions, such as research and development, finance, and information systems, where there can be significant economies of scale.

4.0 Conclusion

There are five main modes of entering a foreign market: 1) exporting, 2) licensing, 3) franchising, 4) entering into a joint venture with-a host country company, and 5) setting up a wholly owned subsidiary in the host country.

Each entry mode has its advantages and disadvantages, and companies must weigh these carefully when deciding which mode to use. Market Entry Strategy (Export Marketing). There are various strategies of entering an international market. Each of these strategies has certain advantages and disadvantages. A strategy, appropriate for one market, may not be suitable for another market with a different business environment. Therefore, an exporter should select an appropriate strategy keeping in mind internal and external factors.

5.0 Summary

Different strategies that the multi country organisations adopt when they expand outside their domestic market place and start to compete on a global scale. One alternative available for companies is to follow the same strategy worldwide, which is referred to as a global strategy. Selling the same product the same way in every nation (standardisation) allows a company to realise substantial cost savings from greater economies of scale. These cost savings can then be passed on to consumers in the form of lower prices, enabling firms to gain market share from competitors. However, to succeed in a new marketplace, it may have to customise its product offering to cater to the tastes and preferences of local consumers. While this may help, the shorter production runs associated with such a strategy sometimes raise the costs of competing and lower a firm's profit margins.

6.0 Self-Assessment Exercise

How does the rise of internet help in explaining the growth of worldwide business to business (B2B) market?

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