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Environment Analysis & Strategic Position

Part 4

Chartered Accountancy
Strategic Level

Strategic Management & Leadership (SML)

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STRATEGIC MANAGEMENT

&

LEADERSHIP

CA - STRATEGIC LEVEL

Environment Analysis & Strategic Position (04)

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Environment Analysis & Strategic Position – (10%)

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INTRODUCTION

In this chapter we consider ethics: what the term means and how ethics can be applied. The chapter then moves on to consider the concept of corporate social responsibility (CSR), by linking organizational behavior the effect it may have on a range of different parties (Stakeholders) both within and outside the organisation in strategically managing a business entity.

1.0 STAKEHOLDERS

The **stakeholders** of a business organisation are the people and groups who have an interest in what the organisation does. In some cases, stakeholders are able to influence the organisation and what its management decide to do or who might get influenced by the acts of the organization.

Stakeholders can be;

1. **Internal -** These are individuals or groups who work within the organisation. (Management / Employees)

2. **Connected -** These are individuals or other persons/organisations with direct links to the company. (Shareholders / Customers / Suppliers / Lenders)

3. **External -** These are people or organisations that do not have a direct relationship with the business of the company. (Government / General Public / Media)

1.1 Stakeholder Interests & Impact

1.1.1 Interest of Stakeholders

Interest is a way of indicating whether stakeholders are relatively active or relatively passive

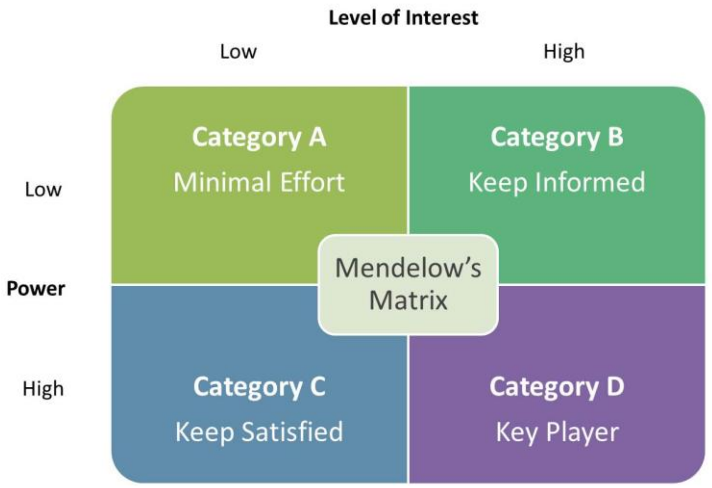
1.1.2 Impact / Power of Stakeholders

Stakeholder	**Impact / Power**
Management	
Employees	
Shareholders	
Lenders / Banks	
Customers	
Government	

1.2 Stakeholder Mapping

Stakeholder mapping is a method of:

- Analyzing the interest and power of different stakeholder groups
- Indicating how management should respond to the concerns of each stakeholder group



1.2.1 Key Players

1.2.2 Keep Satisfied

1.2.3 Keep Informed

1.2.4 Minimal Efforts

1.3 Stakeholder Conflicts

Different stakeholder groups have different interests, and these may come into conflict. Management need to understand what the result of the conflict might be.

Example:

However, you should also consider the different types of responsibility an organisation has to its stakeholders.

- **Economic responsibility**

  To make profits and provide an acceptable rate of return to shareholders.

- **Legal responsibility**

  To comply with relevant rules and regulations.

- **Social responsibility**

  To be a good corporate citizen, and to make a positive contribution to society and the local community.

2.0 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate social responsibility (CSR) is concerned with a company's obligation to all stakeholders to act in a sustainable way, particularly in the economic, social and environmental dimensions.

Corporate Social Responsibility (CSR) is an organisation's obligation to maximize positive stakeholder benefits while minimizing the negative effects of its actions.

CSR requires an organisation to go beyond simply adhering to minimum ethical standards. Ethics concerns issues such as justice, fairness and honesty, which are fundamental, unchanging values that have implications for business.

CSR could include:

- Staff development via training and education
- Equal opportunities statements
- Written antidiscrimination policies
- Commitment to reporting on CSR
- Policies for restricting the use of child labour by suppliers
- Policies on fair trade
- Commitment to the protection of the local community

2.1 CSR Stances

Different organisations take very different stances on social responsibility, and their different stances will be reflected in how they manage such responsibilities.

Johnson, Scholes & Whittington identify four corporate social responsibility stances, which reflect a progressively more inclusive list of stakeholder interests:

- Laissez-faire
- Enlightened self-interest (long-term shareholder interest)
- Multiple stakeholder obligations
- Shaper of society

- Laissez-faire

Organisations which adopt a laissez-faire stance take the view that an organisation's only responsibilities are the short-term interests of shareholders, and to make a profit, pay taxes and provide jobs.

Organisations adopting this view believe that it is the government's role to prescribe, through legislation and regulation, the constraints which are placed on businesses in their pursuit of economic efficiency. Laissez-faire organisations will meet these minimum obligations but no more.

• Enlightened self-interest (long-term shareholder interest)

The rationale behind the 'enlightened self-interest' stance is that there can be a long-term benefit to shareholders from well-managed relationships with other stakeholders. There can be following 02 key objectives of this view;

(i) Managing Corporate Image
(ii) Managing Pressure for Legal Regulations / Acts

• Multiple stakeholder obligations

Organisations adopting this stance accept the legitimacy of the expectations of stakeholders other than shareholders and build those expectations into the organisation's stated purposes. Such organisations recognise that they would not be able to function without appropriate relationships with groups such as suppliers, employers and customers.

However, organisations adopting a 'multiple stakeholder obligations' stance also argue that performance should not be measured simply through the financial bottom line. They argue that the key to long-term survival is dependent on social and environmental performance as well as economic (financial) performance, and therefore it is important to take account of the views of stakeholders with interests relating to social and environmental matters.

• Shaper of society

Shapers of society regard financial considerations as being of secondary importance to changing society or social norms. For such organisations, ensuring that society benefits from their actions is more important than financial and other stakeholder interests.

2.2 Arguments against CSR

1.

2.

3.

4.

2.3 Arguments Supporting CSR

1.

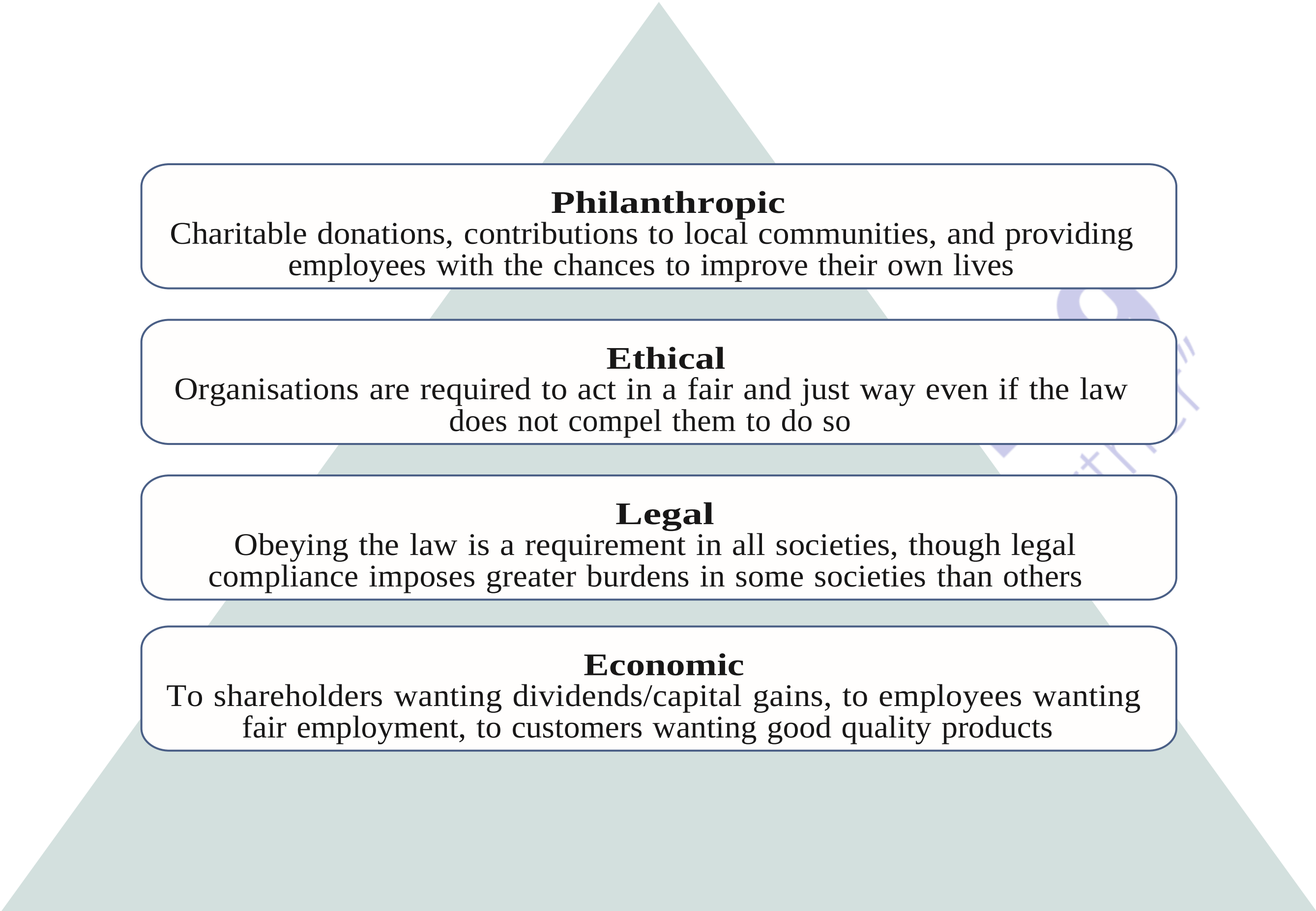
2.

3.

4.

2.4 CSR Model – Carroll's 1991

This approach is modelled on the idea of a hierarchy of needs that an organisation should be aiming to fulfil, starting at the most basic level (economic) which expects some form of profitability for investors.



2.5 Approaches to Social Responsibility

Proactive Strategy	
Reactive Strategy	
Defense Strategy	
Accommodation Strategy	

2.6 The social audit

Firms sometimes carry out social audits. This generally involves:

- Recognising a firm's rationale for engaging in socially responsible activity
- Identifying programmes which are congruent with the mission of the company
- Setting objectives and priorities related to this programme
- Specifying the nature and range of resources required
- Evaluating company involvement in such programmes (past, present and future)

Whether or not a social audit is used depends on the degree to which social responsibility is part of the corporate philosophy.

2.7 Environmental and green concerns

Business activities, in general, were formerly regarded as problems for the environmental movement. There has been an increase in the use of the green approach to market products

Environmental impacts on business may be direct :

- Changes affecting costs or resource availability
- Impact on demand
- Effect on power balances between competitors in a market

Pressure for better environmental performance is coming in many faces.

(a) Green pressure groups

(b) Employees are increasing pressure on the businesses

(c) Legislation is increasing almost by the day.

(d) Environmental risk screening has become increasingly important.

2.8 Strategic planning and green concerns

Physical environmental conditions are important for strategic planning.

(a) Resource inputs. Managing physical resources.

(eg oil companies, mining companies) is a good source of profits.

(b) Logistics.

The physical environment presents logistical problems or opportunities to organisations. Proximity to road and rail links can be a reason for siting a warehouse in a particular area.

(c) Government.

The physical environment is under the control of other organisations.

(i) Local authority

Can influence where a building and necessary infrastructure can be sited.

(ii) Governments

Can set regulations about some of the organisation's environmental interactions.

(d) Disasters.

In some countries, the physical environment can pose a major 'threat' to organisations.

Issues relating to the effect of an organisation's activities on the physical environment have come to the fore in recent years.

2.9 The impact of green issues on business:

- Consumer demand for products which appear to be environmentally friendly
- Demand for less pollution from industry
- Greater regulation by government (eg recycling targets)
- Demand that businesses be charged with the external cost of their activities
- Possible requirements to conduct environmental audits
- Opportunities to develop products which are environmentally friendly
- Taxes

However, as with so many other areas of business, while some people advocate 'green claims' others are more cynical about them.

(a) Marketing.

Some critics argues that companies such as Body Shop have exploited environmental friendliness as a marketing tool.

(b) Publicity.

Perhaps companies have more to fear from the impact of bad publicity (relating to their environmental practices) than they have to benefit from positive ecological messages, as such. Public relations is a vital competitive weapon.

(c) Lifestyles.

There may be a limit to which consumers are prepared to alter their lifestyles for the sake of ecological correctness.

(d) Consumers

May be imperfectly educated about green issues. For example, some companies may have to 'educate' consumers as to the relative ecological impact of their products.

2.10 Sustainability of Resources

Sustainability involves developing strategies so that the company only uses resources at a rate that allows them to be replenished such that the needs of the current generation can be met without compromising the needs of future generations. At the same time, emissions of waste are confined to levels that do not exceed the capacity of the environment to absorb them.

Sustainability means that resources consumed are replaced in some way: for every tree cut down another is planted. Some resources, however, are inherently non-renewable: for example, oil will eventually run out.

John Elkington, writes about the triple bottom line (TBL), which means 'business people must increasingly recognize that the challenge now is to help deliver simultaneously:

- Economic prosperity
- Environmental quality
- Social equity.

Elkington considers there to be three main forms of capital that businesses need to value.

- Economic capital (physical, financial and human skills and knowledge)
- Natural capital (replaceable and irreplaceable)
- Social capital (the ability of people to work together)

2.11 Impact of CSR to Strategy & Corporate Governance

- Objectives / Mission Statement
- Ethical Code of Conduct
- Social Accounting

2.12 Corporate Governance

Corporate governance could include representatives from key stakeholder groups on the board, or perhaps even a stakeholder board of directors. It also implies the need for a binding corporate governance code that regulates the rights of stakeholder groups.

2.13 The Triple P model

<u>Triple Bottom Line (TBL) accounting</u>

TBL accounting means expanding the traditional company reporting framework to take into account environmental and social performance in addition to financial (economic) performance.

The concept is also explained using the triple 'P' headings of

People

Planet

Profit

<u>People</u>

<u>Planet</u>

<u>Profit</u>

3.0 APPROACHING ETHICAL SCENARIOS

3.1 American Accounting Association (AAA) model

The AAA model was set out in a report by Langenderfer and Rockness in 1990.

They recommended a seven-step model:

1.
2.
3.
4.
5.
6.
7.

The stakeholders of a business organisation are the people and groups who have an interest in what the organisation

3.2 Tucker's 5 question model

Tucker's model can also be used to determine the most ethical outcome in a particular situation, generally an ethical problem for business. It focuses on five key questions.

1.
2.
3.
4.
5.