Student Self-administered case study

Corporate Ethics_Winning Back Public Trust

Case duration (Min): 45-60

Principles of Management (PoM)

Managing ethics and corporate social responsib

Worldwide

Case summary:

Explore trust both within and outside the organization

Why business ethics and corporate social responsibility matter. A focus on the role of trust in business.

Why should the international organisation worry about how business is conducted, ethics, integrity and doing the right thing? In recent times we have witnessed environmental issues gaining prominence, financial mismanagement, the use of child labour and exploitation of workers, unsafe work practices, excessive surveillance, breaches of privacy, intellectual property theft and many other events leading to the erosion of confidence in corporations. Whereas unethical behaviour may result in a loss of confidence, trust and business, ethical and responsible behaviour can enhance reputation and win business.

Learning objectives:

Discuss the important ethical issues and challenges facing the contemporary organization.
Apply stakeholder theory to business ethics.

Case problem:

Why should the international organisation worry about how business is conducted, ethics, integrity and doing the right thing?

Company

Management Services

Arthur W. Page Society

http://www.awpagesociety.com/

The Arthur W. Page Society discuss "Trust". They argue that "It's essential to a functioning economy. It's a competitive advantage for companies. It's the bedrock of personal and business relationships. It's something that is built over time through consistent performance, transparency and mutuality. When it's lost, it takes enormous resources to recapture". The Arthur W. Page Society is a professional association for senior public relations and corporate communications executives who seek to enrich and strengthen their profession. Since its incorporation in December 1983, the Page Society has brought together, in a networking capacity, senior communications executives representing a wide spectrum of industries who are interested in helping each other and perpetuating high professional standards. The Society is named in honour of Arthur W. Page, who served as Vice President of public relations for the American Telephone and Telegraph Company from 1927 to 1946. Arthur W. Page practiced seven (Page) principles of public relations management as a means of implementing his philosophy.

•Tell the truth. Let the public know what's happening and provide an accurate picture of the company's character, ideals and practices.
•Prove it with action. Public perception of an organization is determined 90 percent by what it does and 10 percent by what it says.
•Listen to the customer. To serve the company well, understand what the public wants and needs. Keep top decision makers and other employees informed about public reaction to company products, policies and practices.
•Manage for tomorrow. Anticipate public reaction and eliminate practices that create difficulties. Generate goodwill.
•Conduct public relations as if the whole company depends upon it. Corporate relations is a management function. No corporate strategy should be implemented without considering its impact on the public. The public relations professional is a policymaker, capable of handling a wide range of corporate communications activities.
•Realize a company's true character is expressed by its people. The strongest opinions -- good or bad -- about a company are shaped by the words and deeds of its employees. As a result, every employee -- active or retired -- is involved with public relations. It is the responsibility of corporate communications to support each employee's capability and desire to be an honest, knowledgeable ambassador to customers, friends, shareowners and public officials.
•Remain calm, patient and good-humoured. Lay the groundwork for public relations miracles with consistent and reasoned attention to information and contacts. This may be difficult with today's contentious 24-hour news cycles and endless number of watchdog organizations. But when a crisis arises, remember, cool heads communicate best.

Pre class activities...

1	Investigating Trust & codes of ethics Prior to class students should identify trust as a common component/ theme of many codes of ethics In groups or individually, students should collect three examples of codes of ethics (with or without reference to trust) The examples should be brought to class for discussion	**30-45**
2	Download and read the report from the Arthur W. Page Society and the Business Roundtable Institute on Corporate Ethics, "The Dynamics of Public Trust in Business - Emerging Opportunities for Leaders" specifically addresses the current crisis of trust in business. http://www.awpagesociety.com/site/resources/awp_trust_report/	**30-45**

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:
1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.
Consider attempting the case study as a group exercise; you could form a study group with fellow students.
3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.
Discuss questions and answers with other students.
4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

Title/ Media type	URL/ Media description
The Dynamics of Public Trust in Business - Emerging Opportunities for Leaders"	http://www.awpagesociety.com/site/resources/awp_trust_report/
HTML	A report from the Arthur W. Page Society and the Business Roundtable Institute on Corporate Ethics, "The Dynamics of Public Trust in Business - Emerging Opportunities for Leaders" specifically addresses the current crisis of trust in business. For a handout on the Report, see the URL.
Winning Back Public Trust	http://feedroom.businessweek.com/?fr_story=01b2f5716890c4175e47ab2d3c6f46920282aa20&rf=bm
Film	A report on what business needs to do. The Arthur W. Page Society and the Business Roundtable Institute for Corporate Ethics call for companies to align their interests more with those of the public.

NOTES:

Case study questions...

	Action	Pre/During/After class
2	**HOW IMPORTANT IS TRUST WITHIN BUSINESS?** In groups discuss what is meant by trust and mistrust. You should start by brainstorming related words and synthesise a definition relevant to the context of business ethics. You should also identify the entities which may either trust or be trusted. Next, identify the business benefits likely to accrue for the organization that is trusted and the business consequences of mistrust both within the organization and between the organization and other stakeholders.	During
2	**CRITICALLY EVALUATE THE TRADITIONAL VIEW.** In the traditional (shareholder) view of the firm, the organization has a fiduciary duty to place the needs of the shareholders (the owners) first, in order to increase value for the shareholders. In input-output models of the corporation, the organization converts the inputs of investors, employees, and suppliers into exploitable outputs which customers buy, thereby returning funds (benefit) to the organization. Through this model, organizations only attend to the needs and wishes of those four groups: investors, employees, suppliers, and customers. Critically evaluate the traditional view: should the shareholder needs come first?; should any other needs be considered?	During
3	**MEASURING TRUST.** How can trust be measured? How do you measure reputation?	During
4	**BUILDING TRUST.** What can companies do to win/ build/ repair/ earn and grow trust?	During
5	**WHO OR WHAT REALLY COUNTS?** How can organizations prioritise stakeholders? Who (or what) are the stakeholders of the organization? And to whom (or what) do managers pay attention? Which groups are stakeholders deserving or requiring management attention, and which are not? Management's challenge is to decide which stakeholders merit and receive consideration in the decision-making process. In any given instance, there may be numerous stakeholder groups (shareholders, consumers, employees, suppliers, community, social activist groups) clamouring for management's attention. How do managers sort out the urgency or importance of the various stakeholder claims?	During

Answers...

STAKEHOLDER

anyone concerned with how an organization operates, and who is going to be affected by an organizational change or programme of changes.

STAKEHOLDER THEORY

A business is for its stakeholders and the actions of management should be designed to balance stakeholder interests.

BUSINESS ETHICS

The accepted principles of right or wrong governing the conduct of businesspeople

ETHICS

Principles of right and wrong that can be used by individuals acting as free moral agents to make choices to guide their behaviour.

CORPORATE SOCIAL RESPONSIBILITY

a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on all stakeholders, including the environment

VALUES

Abstract ideas about what a society believes to be good, right, and desirable

PUBLIC RELATIONS

A planned and sustained effort to establish and maintain goodwill and mutual understanding between an organisation and its target publics

Question/ Answer

2 **How important is trust within business?**

In groups discuss what is meant by trust and mistrust. You should start by brainstorming related words and synthesise a definition relevant to the context of business ethics. You should also identify the entities which may either trust or be trusted. Next, identify the business benefits likely to accrue for the organization that is trusted and the business consequences of mistrust both within the organization and between the organization and other stakeholders.

(Trust: have confidence or faith in, reliance - trust is a relationship of reliance, reliance on the intention, believe in, the trait of believing in the honesty and reliability of others, faith, complete confidence in, credit; reliance on the integrity, ability, or character of a person or thing, depend on)
(Mistrust, distrust and Lack of trust: doubt about someone's honesty, untrustworthy; regard with suspicion; have no faith or confidence in, believing that a particular party has a hidden agenda or ulterior motive, to be wary, suspicious or doubtful
Entrust: confer a trust upon; "The employee was entrusted with ..."; " The organization was entrusted with ".
Trust may exist as a property of the relationship between the following entities/ stakeholders: Employees and Employers; Organizations and Customers; Organizations and Suppliers; Organizations and Partners; Organizations and the Public; Organizations and the Government; Organizations and Investors)
Trust is a personal evaluation/ judgement of an entity you may relate to and governs your perceptions and behaviour in relation to that entity.
Consequences
+ve: business and trade take place, employees are given greater responsibility without the cost of control (efficiency gain), investments are made in the company, decisions are made in the company's favour, access to resources, improved morale and loyalty, improved recruitment – discuss tarnished reputation, public image, brand etc.
-ve: see the opposite of the benefits.

2 **Critically evaluate the traditional view.**

In the traditional (shareholder) view of the firm, the organization has a fiduciary duty to place the needs of the shareholders (the owners) first, in order to increase value for the shareholders. In input-output models of the corporation, the organization converts the inputs of investors, employees, and suppliers into exploitable outputs which customers buy, thereby returning funds (benefit) to the organization. Through this model, organizations only attend to the needs and wishes of those four groups: investors, employees, suppliers, and customers.

Critically evaluate the traditional view: should the shareholder needs come first?; should any other needs be considered?

Stakeholder theory argues there are other parties involved, including governmental bodies, trade associations, trade unions, communities, and the public.

Over the past two decades we have seen a gradual rejection of the "management serving the shareowners" model, and a greater acceptance of stakeholder theory, based either on broad theories of philosophical ethics, such as utilitarianism, or on narrower "middle-level" theories derived from the notion that a "social contract" exists between corporations and society. Stakeholder theory suggests the role of the organization is to satisfy a wider set of stakeholders, not simply the owners. The theory is used to interpret the function of the corporation - how things should be, including the identification of moral or philosophical guidelines for the operation and management of corporations.

3 **Measuring trust.**

How can trust be measured? How do you measure reputation?

Employee attitude surveys; employee recruitment and retention; share price; brand perception.

4 **Building trust.**

What can companies do to win/ build/ repair/ earn and grow trust?

Discuss values, code of ethics (a common theme is trust, 'that people will trust us and want to do business with us'),building relationships, aligning business interests with stakeholder (public) interests, focussing on public, not just customer needs.

5 Who or What Really Counts?

How can organizations prioritise stakeholders? Who (or what) are the stakeholders of the organization? And to whom (or what) do managers pay attention? Which groups are stakeholders deserving or requiring management attention, and which are not? Management's challenge is to decide which stakeholders merit and receive consideration in the decision-making process. In any given instance, there may be numerous stakeholder groups (shareholders, consumers, employees, suppliers, community, social activist groups) clamouring for management's attention. How do managers sort out the urgency or importance of the various stakeholder claims?

If we are to better-manage stakeholders we need a method to categorise them. Narrowing the range of stakeholders requires applying some acceptable and justifiable sorting criteria to the field of possibilities. Mitchell, Agle and Wood (1997) contribute to a theory of stakeholder identification and salience based on stakeholders possessing one or more of three relationship attributes: power, legitimacy and urgency. By combining these attributes, they generate a typology of stakeholder's propositions concerning their salience (making them stand out and be noticed) to managers of the organization. Their theory of stakeholder identification can explain how managers prioritize stakeholder relationships i.e. determine organizational resource allocation in response to stakeholder claims. Mitchell, Agle and Wood (1997) proposed that stakeholders possess some combination of three critical attributes: power, legitimacy, and urgency (identification typology) and predict that the salience of a particular stakeholder to the firm's management is low if only one attribute is present, moderate if two attributes are present, and high if all three attributes are present.

Dormant stakeholders have little or no interaction with the organization. However, because of their potential to acquire a second attribute, management should remain cognizant of such stakeholders, for the dynamic nature of the stakeholder-manager relationship suggests that dormant stakeholders will become more salient to managers if they acquire either urgency or legitimacy. Discretionary stakeholders are most likely to be recipients of corporate philanthropy. The key point regarding discretionary stakeholders is that, absent power and urgent claims, there is absolutely no pressure on managers to engage in an active relationship with such a stakeholder, although managers can choose to do so. As more salient stakeholders, dominant stakeholders typically have some formal mechanism in place that acknowledges the importance of their relationship with the firm e.g. an investor relations office to handle ongoing relationships with investors; a human resources department that acknowledges the importance of the firm-employee relationship; public affairs offices are common in firms that depend on maintaining good relationships with government. In addition, corporations produce reports to legitimate, powerful stakeholders, including annual reports, proxy statements, and, increasingly, environmental and social responsibility reports. Dominant stakeholders expect and receive much of management attention. We characterize stakeholders who lack power but who have urgent legitimate claims as "dependent" because these stakeholders depend upon others for the power necessary to carry out their will. Included in this category may be local residents, animals, and even the natural environment itself. Dangerous stakeholders lack legitimacy, and may be coercive and possibly violent, making the stakeholder "dangerous," to the organization (wildcat strikes, employee sabotage, and terrorism). "Coercion" is suggested as a descriptor because the use of coercive power often accompanies illegitimate status. Mitchell, Agle and Wood (1997) caution managers to never forget that stakeholders change in salience, requiring different degrees and types of attention depending on their attributed possession of power, legitimacy, and or urgency, and that levels of these attributes (and thereby salience) can vary from issue to issue and from time to time

Case study references

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Carroll, A B. (1979) 'A Three-Dimensional Conceptual Model of Corporate Performance', Academy of Management Review, Oct79, Vol. 4 Issue 4, p. 497 - 505.

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Donaldson, T. and Preston, L E. (1995) 'The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications', Academy of Management Review, Jan1995, Vol. 20 Issue 1, p. 65 - 91.

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