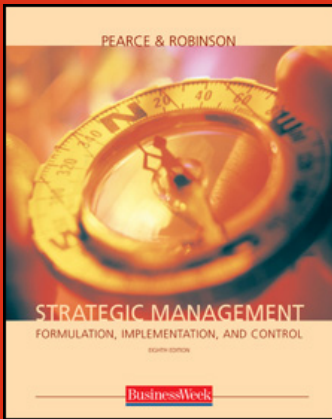


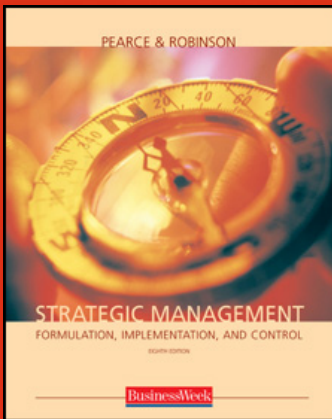
## CHAPTER 2

# Defining the Company's Mission and Social Responsibility



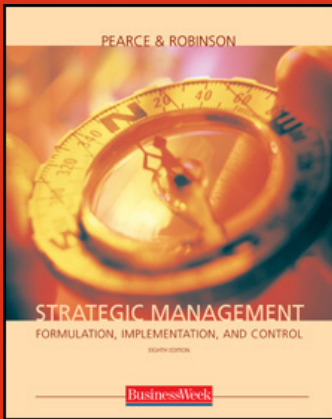
# Chapter Topics

- What is a Company Mission?
- Formulating a Mission
- Overseeing the Strategy Makers
- Agency Theory
- The Stakeholder Approach to Company Responsibility



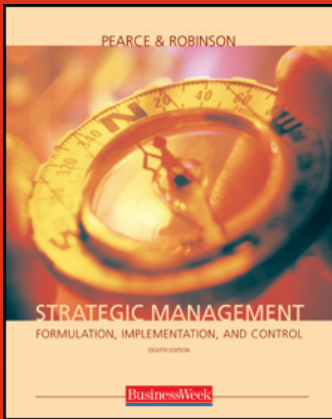
# What is a Company Mission?

The fundamental purpose that sets a firm apart from other firms of its type and identifies the scope of its operations in product and market terms



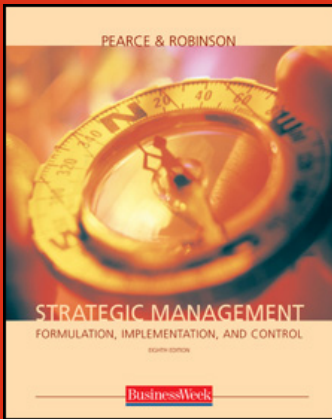
# Characteristics of a Mission Statement

- Embodies the business philosophy of the firm's strategic decision makers
- Implies image firm seeks to project
- Reflects firm's self-concept
- Indicates
  - firm's principal product or service areas
  - primary customer needs the firm will attempt to satisfy



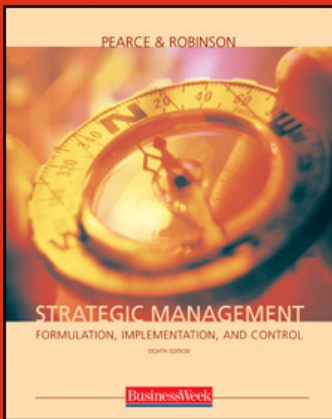
# Questions Addressed By a Mission Statement

- Why is this firm in business?
- What are our economic goals?
- What is our operating philosophy in terms of quality, company image, and self-concept?
- What are our core competencies and competitive advantages?
- What customers do and can we serve?
- How do we view our responsibilities to stockholders, employees, communities, environment, social issues, competitors?



# Components of a Mission Statement

- Specifies basic type of product or service to be offered
- Identifies primary market or customer groups to be served
- Specifies the technology to be used in production or delivery
- Reflects the firm's fundamental concern for survival through growth and profitability
- Reflects the firm's managerial philosophy
- Identifies the public image the firm seeks
- Specifies the self-concept those affiliated with the firm should have of it



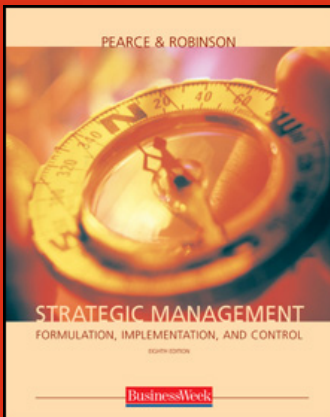
## Ex 2-2: Practical Examples of Mission Statement Components

### Customer-market

To anticipate and meet market needs of farmers, ranchers, and rural communities within North America (CENEX)

### Product-service

AMAX's principal products are molybdenum, coal, iron ore, copper, lead, zinc, petroleum and natural gas, potash phosphates, nickel, tungsten, silver, gold, and magnesium



## Ex 2-2 (contd.)

### Geographic domain

We are dedicated to total success of Corning Glass Works as a worldwide competitor

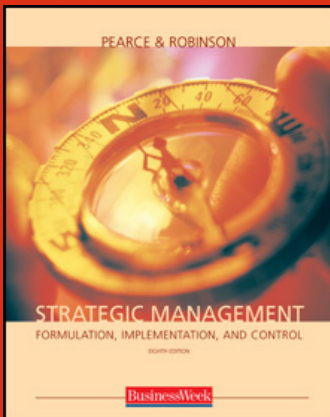
### Technology

The common technology in these areas relates to discrete particle coatings (NASHUA)

### Concern for Survival

In this respect, the company will conduct its operations prudently, and will provide the profits and growth which will assure Hoover's ultimate success





## Ex 2-2 (contd.)

### Philosophy

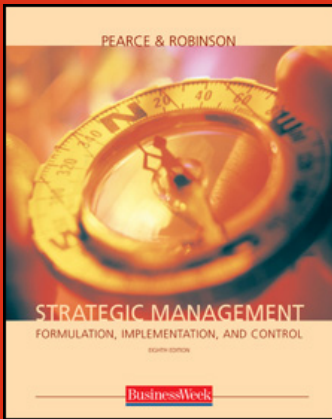
We are committed to improve health care throughout the world  
(Baxter Travenol)

### Self-concept

Hoover Universal is a diversified, multi-industry corporation with strong manufacturing capabilities, entrepreneurial policies, and individual business unit autonomy

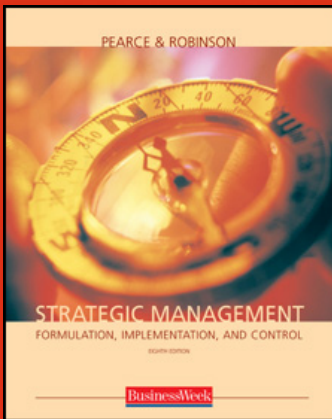
### Concern for Public Image

We are responsible to the communities in which we live and work and to the world community as well (Johnson & Johnson)



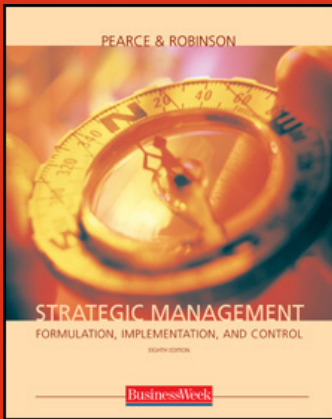
# Newest Trends in Mission Components

- Sensitivity to customer wants
  - “The customer is our top priority!”
  - Emphasis on extensive product safety programs
- Concern for quality
  - “Quality is job one!”
  - Emphasis on quality in manufacturing
  - New philosophy – quality is the norm



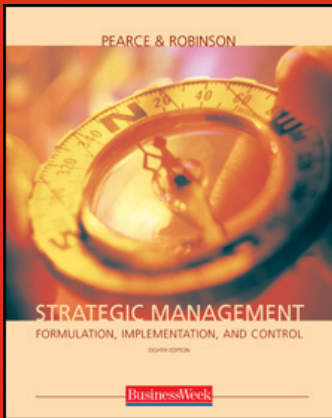
# Newest Trends in Mission Components

- Statements of company vision
  - Developed to express the aspirations of the executive leadership
  - Presents the firm's strategic intent
  - “A computer on every desk, and in every home, running on Microsoft software”



## Ex 2-8: Key Elements of Customer Service-Driven Organizations

- A mission statement or sense of mission makes customer service a priority
- Customer service goals are clearly defined
- Customer service standards are clearly defined
- Customer satisfaction with existing products and services is continuously measured
- Ongoing efforts are made to understand customers to determine where the organization should be headed
- Corrective action procedures are in place to remove barriers to servicing customers in a timely and effective fashion
- Customer service goals have an impact on organizational action



# Deming's 14 Steps to Quality

Create constancy of purpose

Adopt the new philosophy

Cease dependence on mass inspection to achieve quality

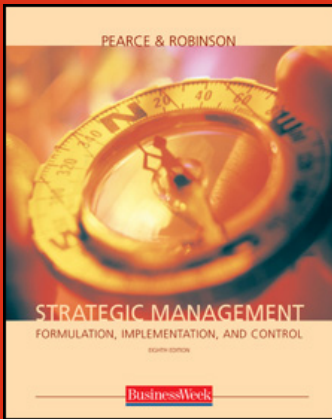
End the practice of awarding business on price tag alone

Improve constantly the system of production and service

Institute training on the job

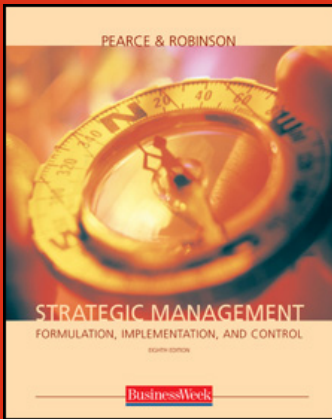
Institute leadership

- Drive out fear
- Break down barriers between departments
- Eliminate slogans, exhortations, and numerical targets
- Eliminate quotas and management by objectives
- Remove barriers that rob workers, etc. of their right to pride of workmanship
- Institute a vigorous program of education/self-improvement
- Everyone works to accomplish goals



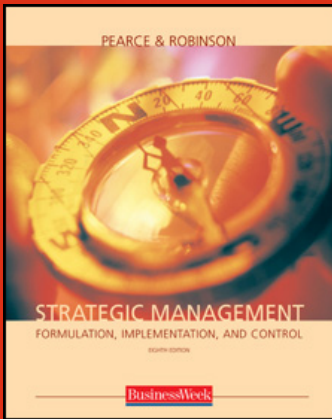
# Responsibilities of the Board of Directors

- To establish and update the company mission
- To elect the company's top officers, the foremost of whom is the CEO
- To establish the compensation levels of the top officers, including their salaries and bonuses
- To determine the amount and timing of the dividends paid to stockholders



## Responsibilities of the Board of Directors

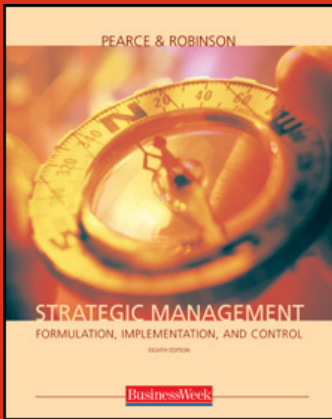
- To set broad company policy on such matters as labor-management relations, product or service lines of business, and employee benefit packages
- To set company objectives and to authorize managers to implement the long-term strategies that the top officers and the board have found agreeable
- To mandate company compliance with legal and ethical dictates



# Concepts of Agency Theory

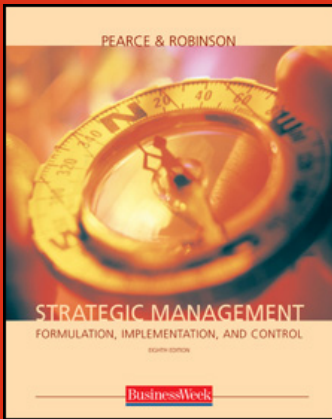
- Involves separation of owners (principals) and managers (agents) of a firm
  - Potential exists for owners' wishes to be ignored
- Involves delegation of decision-making authority by owners to managers
- Potential agency costs can include
  - Agency problems
  - Actions taken to minimize agency problems





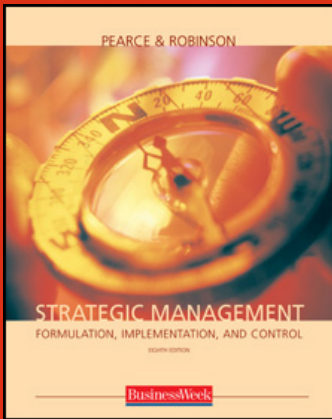
# How Can Agency Problems Occur?

- Moral hazard problem
  - Owners have access to limited information
  - Owners cannot monitor every executive decision
  - Executives often free to pursue own interests
- Adverse selection
  - Stockholders have limited ability to determine competencies of executives at time of hire
  - Problems of overlapping priorities between owners and executives likely to occur



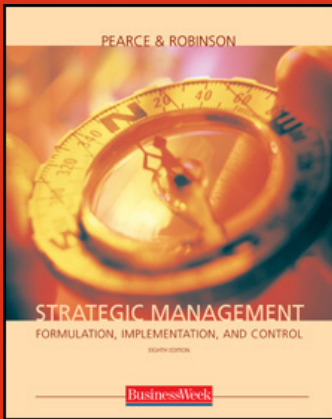
# Potential Agency Relationship Problems

1. Executives pursue growth in company size rather than in earnings
2. Executives attempt to diversify their corporate risk
3. Executives avoid risk
4. Managers act to optimize their personal payoffs
5. Executives act to protect their status



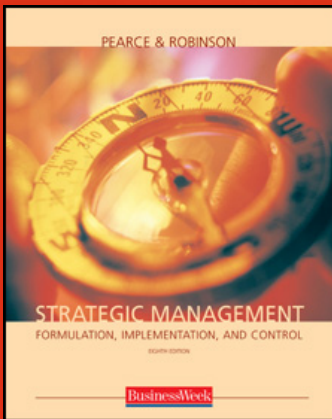
## Solutions to the Agency Problem

- Define agent's responsibilities in a contract, including elements like bonuses to align executives' and owners' interests
- Pay executives a premium for their services
- Structure a backloaded compensation plan for executives
- Create teams of executives across different organizational units to focus on overall organizational performance

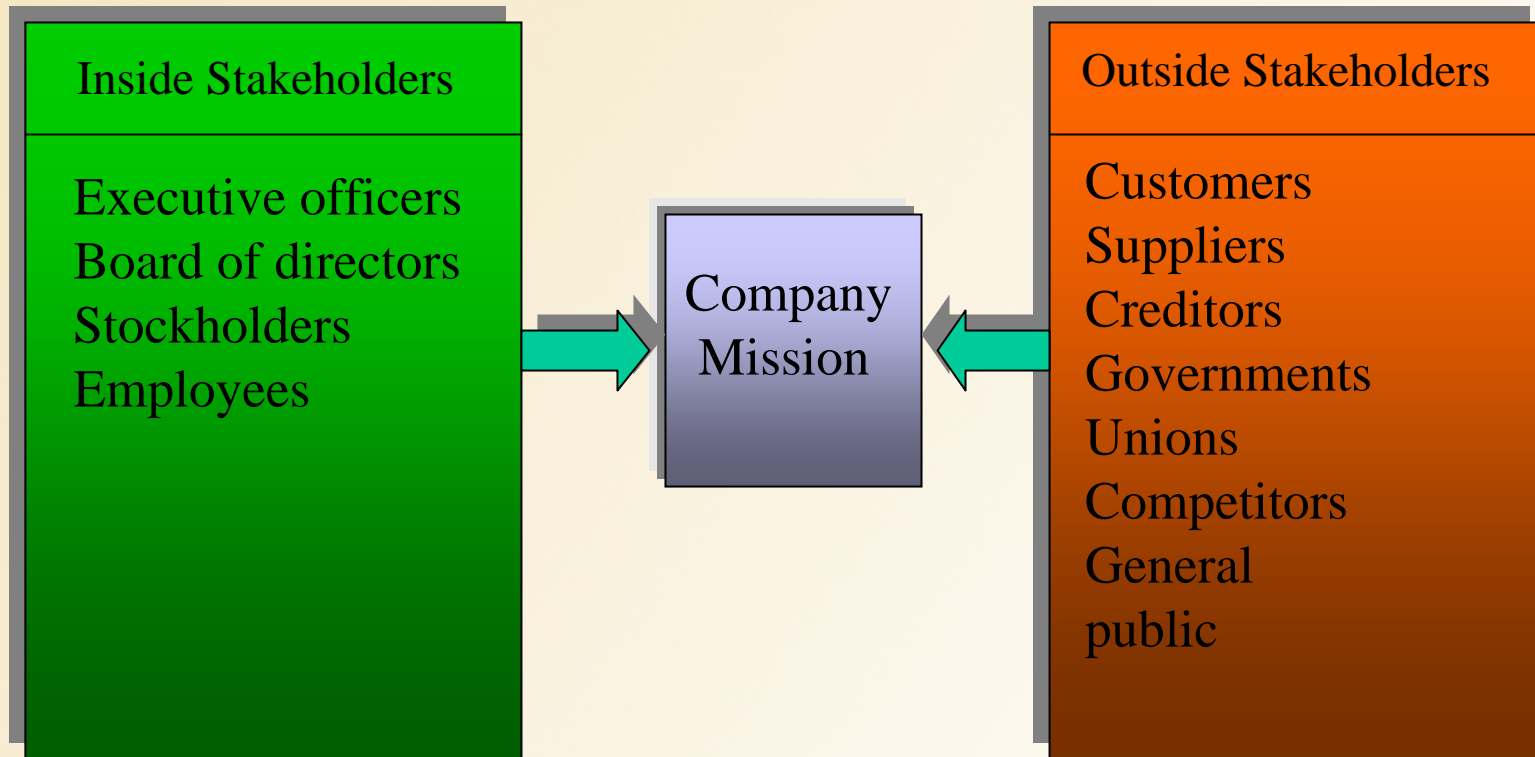


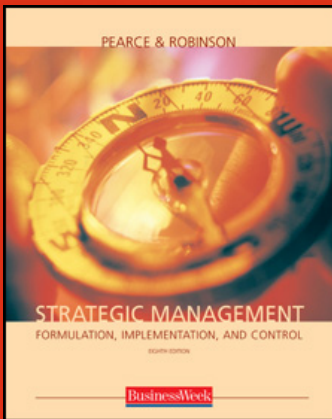
# Stakeholder Approach to Company Responsibility

- Incorporating stakeholders' interests in the mission statement involves
  - *Identification* of the stakeholders
  - *Understanding* the stakeholders' specific claims vis-à-vis the firm
  - *Reconciliation* of these claims and assignment of priorities to them
  - *Coordination* of the claims with other elements of the company mission



## Ex. 2-11: Inputs to Development of Mission Statement





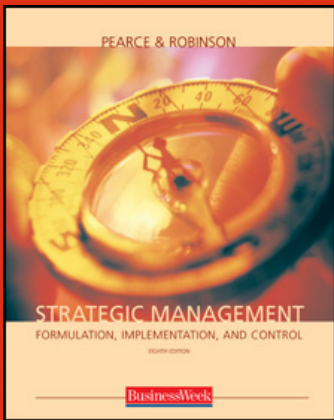
# Social Responsibility

## View of Outsiders

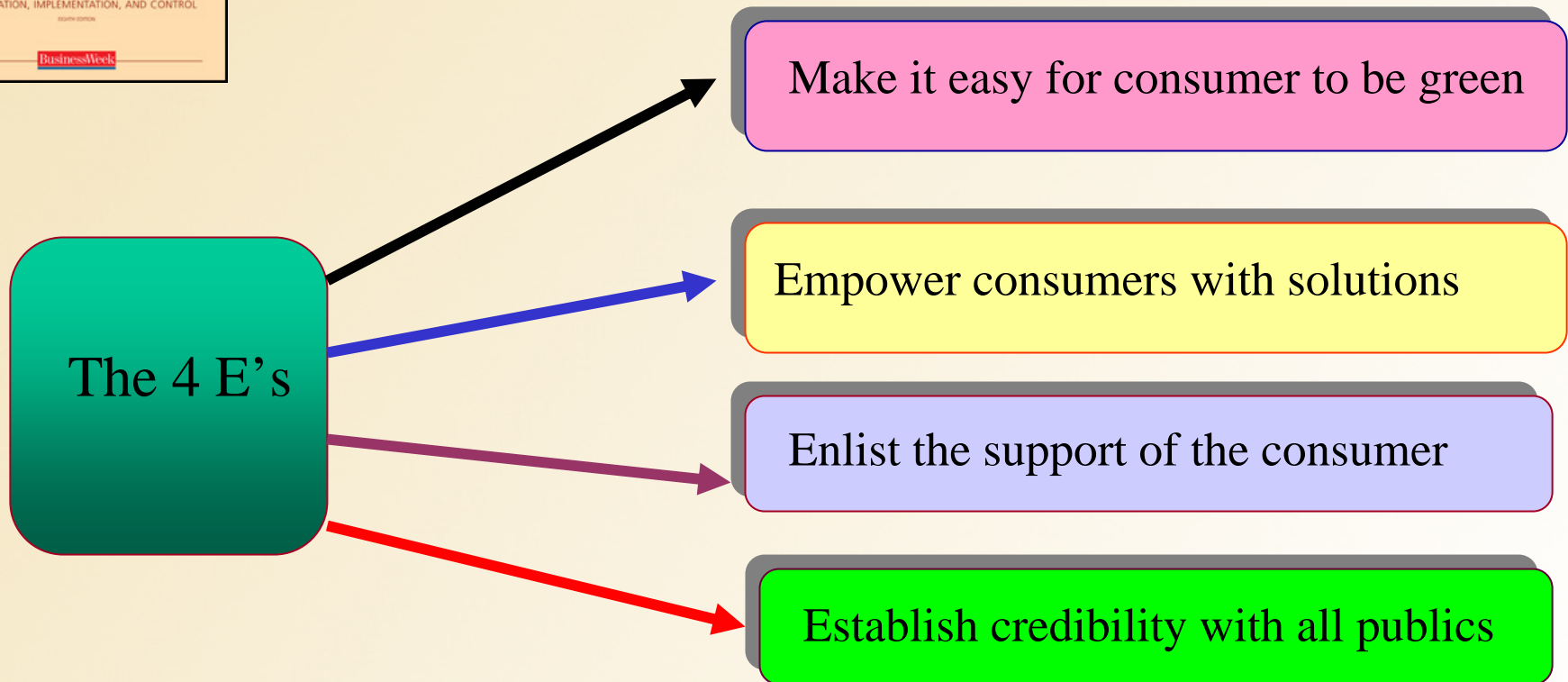
Insiders' claims need to be subordinated to the greater good of the society; that is, to the greater good of outsiders

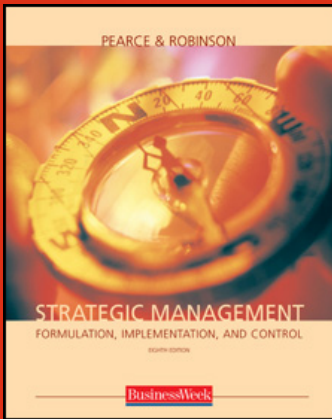
## View of Insiders

The competing claims of outsiders should be balanced against one another in a way that protects the company mission



# Strategies to Address Social Responsibility





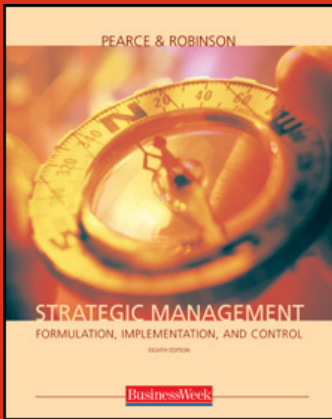
# Why Should Managers Be Concerned About Social Responsibility?

A company's right to exist depends on its responsiveness to the external environment

Government threatens increased regulation if businesses do not meet changing social standards

A responsive corporate social policy may enhance a firm's long-term viability



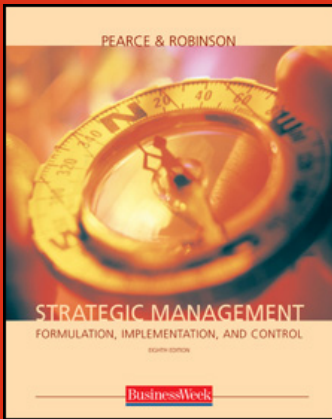


# The Debate: Arguments Against CSR

- A business bears a responsibility only for the financial well-being of its stockholders

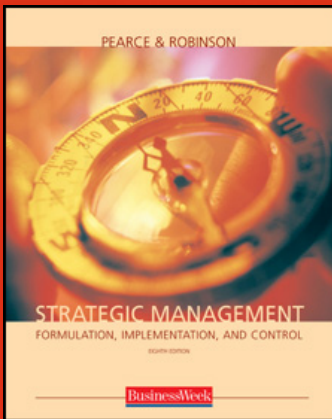
Milton Friedman

- Corporate actions motivated by anything other than shareholder wealth maximization threatens that well-being.



## The Debate: Arguments for CSR

- Business does not function in a vacuum
  - Exists to serve
  - Depends on its environment
  - Has responsibility to ensure well-being of environment
- Stockholders' interests may transcend the financial
- Best way for a company to maximize shareholder wealth
  - Act in a socially responsible manner



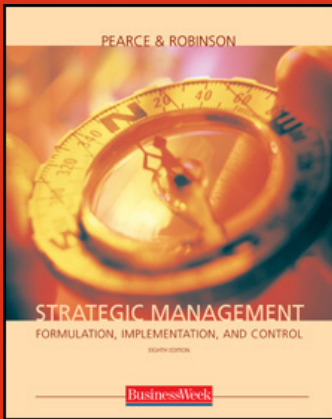
# Cost-Benefit Analysis of CSR

Some CSR activities incur no dollar costs

Socially responsible behavior does not come at a prohibitive cost

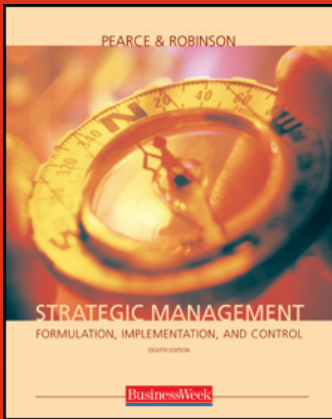
Socially responsible practices may create savings, thus increasing profits

Analysis of CSR has not been successful because ...



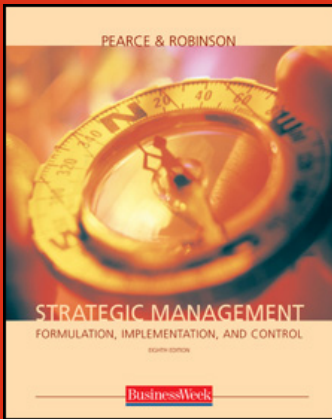
## CSR Today

- Three broad trends are driving businesses to adopt CSR frameworks
  - The resurgence of environmentalism
  - Increasing buyer power
  - Globalization of business



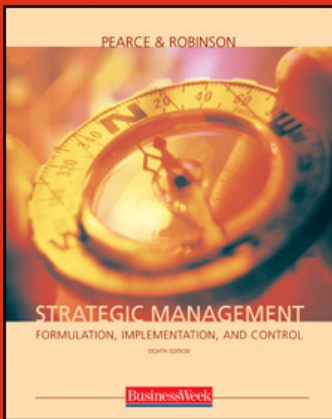
## CSR's Effect on the Mission Statement

- In developing mission statements, managers must identify all stakeholder groups and weigh their relative rights and abilities to affect the firm's success
  - Some companies are proactive in their approach to CSR, making it an integral part of their *raison d'être* (e.g., Ben and Jerry's ice cream)
  - Others are reactive, adopting socially responsible behavior only when they must (e.g., Exxon after the *Valdez* incident)



# Social Audit

A social audit attempts to measure a company's actual social performance against the social objectives it has set for itself



## Uses of a Social Audit

Uses  
include ...

Monitoring and evaluating  
firm social performance

Scanning external  
environment

Determining firm  
vulnerabilities

Institutionalizing CSR  
within firm