Corporate Governance: Strategic Role of a Board of Directors

Five board of director responsibilities:
(1) Help set corporate direction and overall mission (with executives and other key managers);
(2) Hire and fire CEO and top management;
(3) Monitor and help supervise top management;
(4) Review and approve the use of resources; and
(5) Take care of shareholder interests.

Boards can range from being “phantom” boards to very highly involved with developing the company’s strategy.
Ethics and Social Responsibility

Why? BP, Madoff Investment Securities, WorldCom, Enron, to name a few...

What is “ethical behavior”? It is subjective and differs from individual to individual, but it is the view of what is morally “good” and “right” behavior in a particular setting.

For example:

1. Is it ethical to withhold information that might discourage a well-qualified job candidate from joining your organization?
2. Is it ethical to “pad” your expense account if you feel you are being underpaid?
3. Is it ethical to cheat on an job application if you feel you are qualified and know that you will not be caught?
Ethics is Subjective: Different Views of Ethical Behavior

- **Utilitarian View**: “If it is good for you, good for the company, and good for the customer, you should do it.”
- **Individual Rights View**: “Is it fundamentally right to do this to others?”
- **Justice View**: “Is it fair and impartial to everyone involved and/or affected?”
One approach is to apply the “golden rule”: Treat others as you would like them to treat you if you were in their position.

Another approach is to ask three questions – If the answer is “yes” to all three questions, then the action is deemed ethical:

- **Does it satisfy all of the company’s stakeholders?**
- **Does it respect the rights of the individuals involved?**
- **Is it just to all parties involved?**
  - Distributive Justice
  - Procedural Justice
What Can Managers Do to Promote Ethical Behaviors?

- Develop and communicate a corporate *Code of Ethics*.
- Hire ethical managers!
- Evaluate and promote employees on ethical performance – not just objective results.
- Provide employee training and role-playing on ethics in the workplace.
- Encourage whistleblowing and ensure that whistleblowers are kept anonymous.
The Concepts of Social Responsibility and Good Corporate Citizenship

- The essence of socially responsible business behavior is that a company should balance strategic actions to benefit shareholders against the duty to be a good corporate citizen.

- The underlying thesis is that a company and its managers have a duty to:
  - Display a social conscience in operating the business.
  - Take into account how managerial decisions and company actions affect the well-being of employees, local communities, the environment, and society at large.
Components of a Corporate Social Responsibility Strategy
(Source: KLD Research and Analytics)

- GIVING BACK TO THE COMMUNITY
- PRODUCT QUALITY/SAFETY
- EMPLOYEE DIVERSITY
- EMPLOYEE RELATIONS/WELLNESS
- ENVIRONMENTAL IMPACT
- CORPORATE GOVERNANCE
Moral Case: Corporate Social Responsibility and Environmentally Sustainable Business Practices

◆ “It’s the right thing to do.”
  ➔ Ordinary decency, civic-mindedness, and contributing to the well-being of society should be expected of any business

◆ Business operates on the basis of an implied social contract with the members of society.
  ➔ Society grants a business the right to conduct its business affairs and agrees not to unreasonably restrain its pursuit of a fair profit for the goods or services it sells.
  ➔ In return for this “license to operate,” a business is obligated to
    ■ Act as a responsible citizen
    ■ Do its fair share to promote the general welfare of the population

Every company has a moral obligation to be a good corporate citizen.
Business Case: Socially Responsible Behavior and Environmentally Sustainable Business Practices

- **Generates internal benefits**
  - Enhances recruitment of quality employees
  - Increases retention of employees
  - Improves employee productivity
  - Lowers costs of recruitment and training

- **Reduces risk of reputation-damaging incidents**, leading to increased buyer patronage

- **Works in best interest of shareholders**
  - Minimizes costly legal and regulatory actions
  - Provides for increased investments by socially conscious mutual funds and pension benefit managers
  - Focusing on environment issues may enhance earnings