CHAPTER 2

MISSION AND OBJECTIVES

1. Mission

"If you don't know where you're going, it doesn't matter which way you go." Do you know who said that? No, it wasn't a great philosopher or a leading business mind, it was the cat from *Alice in Wonderland*! Nevertheless, this statement could be applied to any business, just as it could be applied to any of our lives.

For your organisation are you able to answer the question: “What are we trying to achieve?” If you can not, then it sounds like your organisation could use some help in the mission department; either in creating one or communicating it. An organisation’s mission answers this question, so you and the other stakeholders know and the organisation has a clear focus.

So **a mission helps to provide**:

Common purpose – so everyone is clear what the purpose and values of the company are to help guide the company’s culture.

Focus for the strategy – Strategic decisions can be based upon and reviewed against their consistency with the mission to ensure the organisation does not get off track or lose focus on its true values and purpose.

Direction for objectives – To ensure alignment of activities towards achieving objectives which are consistent with the company’s purpose.

Let's revisit the fictional Bob's Lunchbox, the independent sandwich shop in Anytown that we discussed in the previous chapter. Bob's Lunchbox is on a mission to become the UK's most-loved lunchtime destination, by making quality sandwiches, filled with local organic produce, for Britain's busy professionals.

When Bob's employees show up for work in the morning, they know what they are trying to achieve and can carry that purpose through to their work. Why? Because he has a mission.

As we progress through each chapter we will remind you of where each **fits in the rational planning model** – just to remind you that each chapter is not stand alone. They fit together into a full and complete approach to setting the strategy for a business. The rational model begins with mission and objectives:

2. Mission statements

Bob, the owner of Bob's Lunchbox, has written down his company mission:

“To become the UK's most-loved lunchtime destination, by making quality sandwiches, filled with local organic produce, for Britain's busy professionals.”

He's created a **mission statement: a written statement of the company’s purpose, strategy, values and policies that can be shared and communicated**.

Campbell set out the **following key elements of good mission statements**:

Purpose

- Why does the organisation exist?
- For whom does it exist?
- What does the organisation hope to achieve long term?

Strategy

- How will the organisation compete?
- The range of markets it is operating within.

Values

- What the organisation stands for (quality, value for money, innovation etc.)

Policies

- Policies people are expected to follow which will ensure people act according to the defined values, strategy and purpose.

Example: Bob's Lunchbox

Let's apply Campbell's rules to Bob's Lunchbox.

- Purpose - To make quality sandwiches for busy professionals
- Strategy - To only use organic and locally sourced food, focused on the market of busy professionals
- Values - Local organic farmers and producers over factory and processed food
- Policies - Use locally sourced organic food

The statement gets all this done in a single sentence!

Does it meet the following criteria as well?

Qualities of good mission statements include:

- Clear/unambiguous
- Concise
- Covers the whole organisation
- Open ended (not quantifiable)

Bob's Lunchbox does a good job actually: well, I understand it, so it must be clear, it says it all in one statement which suggests it's concise, the contents covers everything the organisation does and affects all who work there and I can't see any words or phrases that stop it from being open ended - good job Bob!

Of course, it is possible to over-craft a mission statement. Have a look at how some real companies have handled their mission statements in 2019.

Example real life mission statements

Amazon

“To be Earth’s most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.”

Apple

Apple designs Macs, the best personal computers in the world, along with OS X, iLife, iWork and professional software. Apple leads the digital music revolution with its iPods and iTunes online store. Apple has reinvented the mobile phone with its revolutionary iPhone and App store, and is defining the future of mobile media and computing devices with iPad.

Microsoft

To empower every person and every organization on the planet to achieve more.

You will notice that **many real life mission statements are often short and focused, and lack some of Campbell's elements of good mission statements**. While theoretically incomplete, this adds focus and improves the mission as a communication tool.

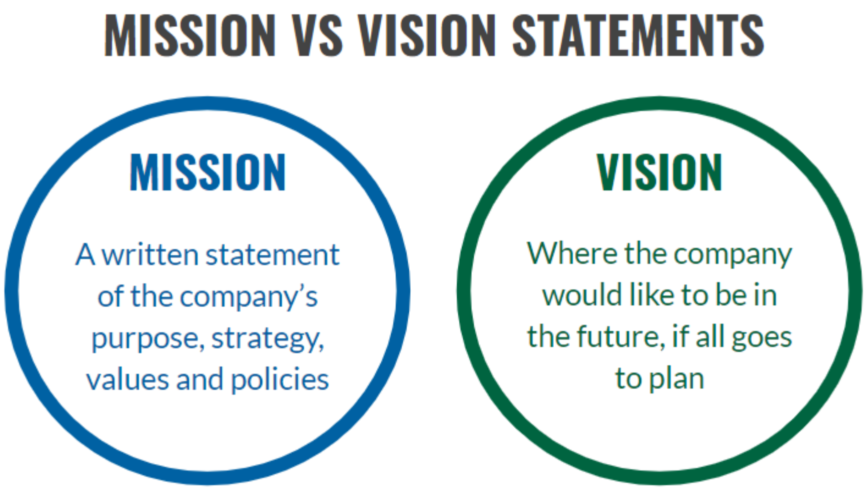
Many of these organisations go on to produce other statements which when taken in combination with the mission statement **complete Campbell's elements**. For example Microsoft added the following **values statement** to an earlier (2013) mission statement:

"As a company, and as individuals, we value integrity, honesty, openness, personal excellence, constructive self-criticism, continual self-improvement, and mutual respect. We are committed to our customers and partners and have a passion for technology. We take on big challenges, and pride ourselves on seeing them through. We hold ourselves accountable to our customers, shareholders, partners, and employees by honouring our commitments, providing results, and striving for the highest quality."

Vision statements

Some organisations have a vision statement. This is simply **a clear view of where they would like to be in the future**. It is worth noting that in the real world mission and vision are used almost interchangeably, this can be seen from the examples above, Microsoft's "mission statement" is actually more like a vision statement. However for your exam, **mission and vision statements are very different**.

In theory:



In order to compare, let's re-visit Bob's mission statement:

"To become the UK's most-loved lunchtime destination, by making quality sandwiches, filled with local organic produce, for Britain's busy professionals."

His vision statement might therefore look something like this:

"To have a successful chain of sandwich shops throughout the UK, serving quality sandwiches to Britain's busy professionals"

While similar, the vision is more focused on the destination, while the mission, more on purpose.

3. Objectives

Now, if it's true that "If you don't know where you're going, it doesn't matter which way you go," then it follows that once you do know where you're going, which way you go becomes critical. Having a mission and a vision is great, but getting there – well, that's where objectives come in.

The purpose of objectives

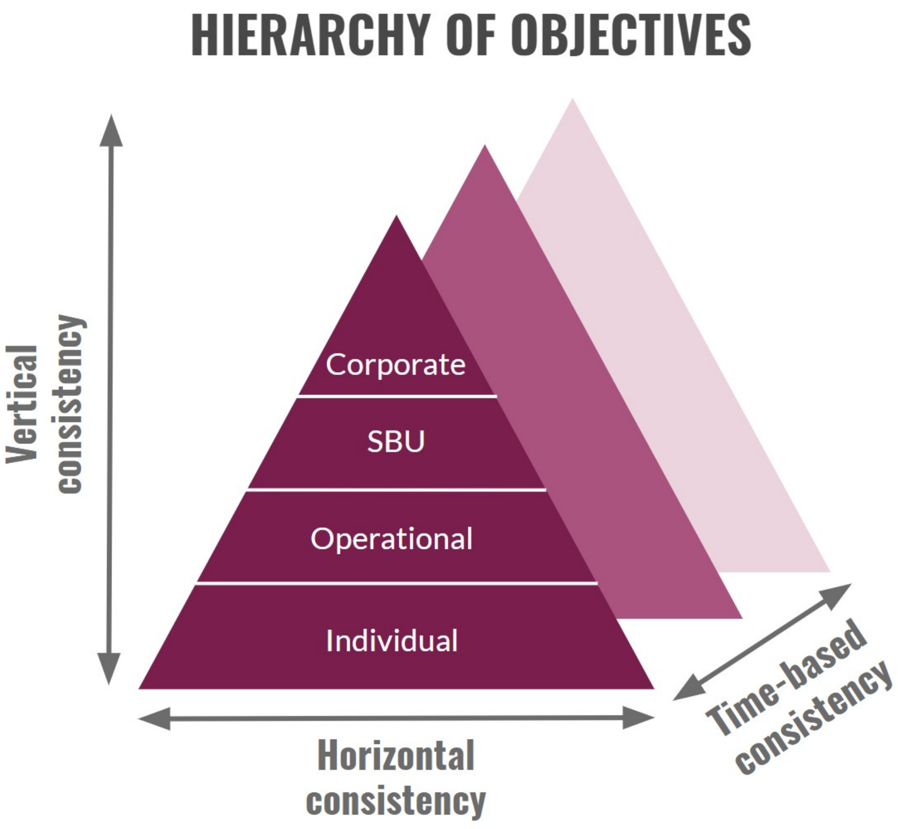
A mission is deliberately non-quantifiable, in other words it provides an overall direction and purpose rather than being directly measurable. This means it is very hard to measure its success and **it is not a good tool for motivating staff since targets are unclear**.

For a mission to be effective, **it needs to be supported by clear**, **measurable objectives** which provide targets for directors and staff, and hence motivates and provides focus for them.

They also perform an important role in performance measurement as **organisational and individual performance can be assessed by how effectively they have achieved their objectives**.

Hierarchy of objectives

Not all objectives are the same! **Objectives are set at different levels** within the organisation to **motivate and focus performance** in each major part of the business. This goes right down to the individuals who are set objectives as part of their appraisal.



Vertical consistency of objectives

Lower level objectives should be consistent with higher level objectives, (e.g. individual's should be set objectives which, when achieved, will contribute to the achievement of their function's objectives.). This **ensures each part of the organisation is acting in a way which is appropriate to the needs of the levels above and below**.

Let's imagine Bob has 5 stores. If his total profit objective is £1m and his stores each aim to make £200,000 profit a year then there is consistency of objectives vertically.

Horizontal consistency of objectives

The objectives of different departments, individuals, or businesses should be consistent with each other. **This facilitates co-ordination within the organisation**.

In Bob's case if the centralised group who make the sandwiches aim to make 20,000 sandwiches a day and each of the 5 stores has a sales target of 4,000 a day then there is horizontal consistency between production and sales targets.

Time-based consistency

Objectives should be consistent and achievable over time.

For example, the 6 month objectives should be a natural progression towards those for the full year. e.g. six month target = £500,000, one year target = £1m.

4. Effective objectives

Bob's been worried about Snackpack, a chain store sandwich shop that may be about to launch in Anytown. To compete, he has developed a strategy to turn his one-store sandwich shop into a chain himself. Now it's time to set his first objectives for that strategy. How will he know they are useful and effective objectives for his business? He'll know if they're SMART!

Qualities of effective objectives

To be effective, objectives should have the following qualities, that spell out SMART:

Specific – About a **clear focused topic**, e.g. profit, sales, customer satisfaction, new product development.

Measurable – Able to be measured to ensure people can be **held accountable** for them, and so that they **give people focus**, e.g. turnover from new products launched.

Achievable – To ensure they are **motivational** to those people tasked with working towards them and to **make rewards attached to them meaningful**. **Targets that are unachievable are more likely to demotivate** staff as they are faced with certain failure no matter what.

Relevant – To the **person/division who has been set the objective, and consistent with the organisation's mission**. For example, objectives for the launch of a new product might be given to the research and development or marketing departments.

Time bound – To help **focus and motivate people** towards achieving a deadline. This will encourage **efficiency and also make people accountable** for achieving the objective by a given date.

Examples and how they relate to SMART

Let's run a few test objectives by the SMART metre.

1. To have great quality products.

Not measurable or time bound. Hard for the manager to know what they're trying to achieve, and so they lack focus in their actions and are demotivated.

2. "For the production team to reduce our current level of defects from 69 per 1000 to 0 per 1000 by the end of the month."

This example is certainly **specific** in its aim, it wants to eliminate defects. It is also **measurable**, as it can be measured by the number of defects. It is also **relevant** to the production teams function and has a deadline so is **time bound**. However, this objective is **not achievable**; the deadline is very short and the task is very difficult.

3. "For the production team to reduce the number of defective products from 2 per 1000 to 1 per 1000 by the end of the year."

Yes! A SMART objective!

It is **specific** and clear, it's **measurable**, and unlike the previous example it is **achievable** (the reduction in defects is much more reasonable and has longer time frame to do it), it is **relevant**, and it is **time bound**.

So Bob decides to use SMART to create his first objective under his new chain store strategy:

To increase turnover by 50% or more over 24 months, by opening one new store in Anytown in the next 12 months.

Is it a SMART move? (Sorry we couldn't resist it!)

5. Stakeholders

What are stakeholders?

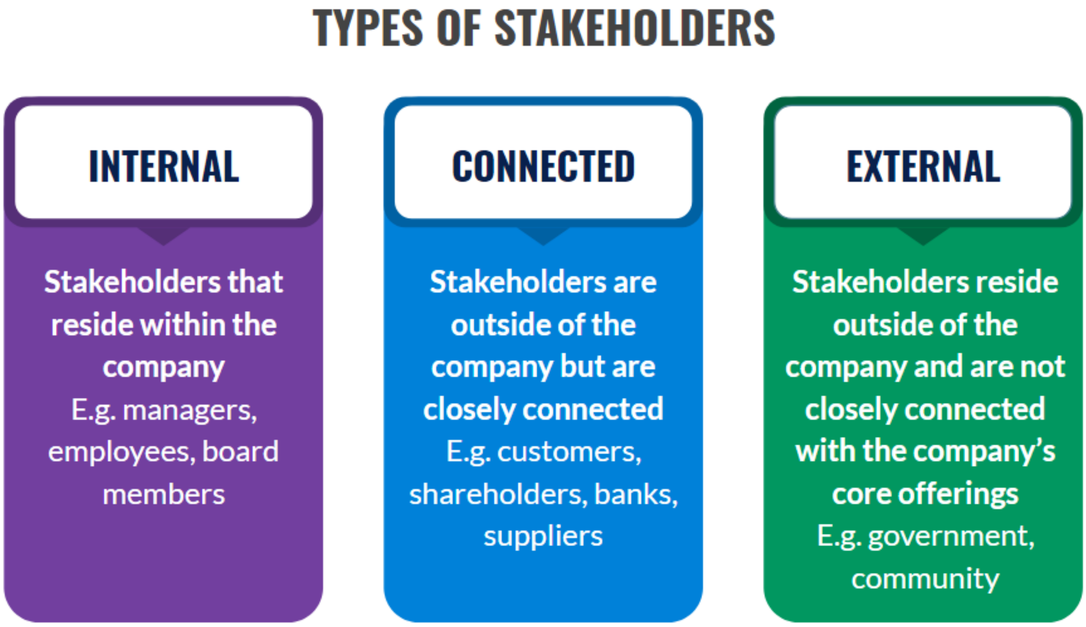
Stakeholders are **any parties that can affect, or be affected by, an organisation's strategy and policies**.

Therefore, **it is important for all organisations to understand their stakeholders and the stakeholders' interests**. General examples of stakeholders include: customers, employees, suppliers, creditors, debtors, the community, government and unions.

Each stakeholder will exert a different level of influence over how an organisation operates.

Classifying stakeholders

To make informed decisions and policies regarding all the business's stakeholders **it is crucial that an organisation classifies its stakeholders** into various groups. This can be done in a number of ways; for example, the organisation can determine whether the stakeholder is internal, external or connected.



The ICE pneumonic can be a useful way to remember these.

Organisational objectives should always be considered in relation to the objectives of different stakeholders. This ensures that a wide range of needs are considered in the objective setting process and balanced objectives are produced.

What do stakeholders need?

Stakeholders and their needs include:

Category	Stakeholder	Needs of the stakeholder
Internal	Directors	Pay, bonus, overall performance, job security
	Employees	Pay, bonus, personal performance, job security
Connected	Shareholders	Share price growth, dividend payments
	Customers	Prices, quality, delivery times, assured supply
	Suppliers	Assured custom, high prices
	Financiers	Interest payments, ability to pay back loans
External	Government	Tax, law, wealth of nation
	Pressure groups	Environment or other ethical issues, pricing etc.
	Local community	Employment, nice place to live
	Wider community	Environment, local jobs etc.

Bob is the sole director and the sole shareholder in his business, so he can just go ahead and do what he wants, right? Wrong!

For the new objective to be a success, Bob will still need to get the support of other internal stakeholders: his employees must be fully behind the plan, especially any that will go on to run the new store.

He will also need to get buy-in (this just a management term that means commitment to a decision) from some external stakeholders. For example, his local suppliers will need be able to scale up production to meet his increased demand. He will definitely need to get buy-in from his bank if he needs to borrow funds. He'll also want to get buy-in from his customers. Will they accept a new chain store approach from their favourite independent?

Lastly, he may need to have permission from connected stakeholders, such as local government to open in certain neighbourhoods and, depending on where he plans to open, he may need to consult with local residents and traders.

You can quickly see how an objection or obstruction from any of these stakeholders could alter Bob's plans. So stakeholders have power, but how much power exactly?

Stakeholder power

Of course, **the degree to which stakeholder needs are considered** as part of the objective setting process **depends on the level of power they have to impact the organisation** and its results. The needs of powerful groups will tend to be prioritised.

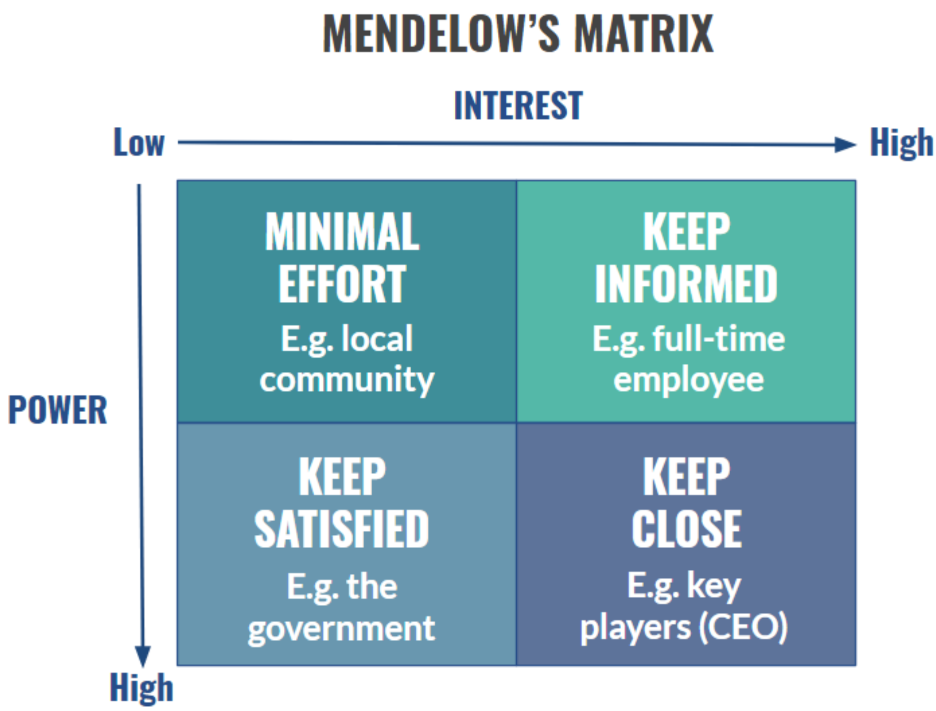
For example, large customers (those who can buy in large quantities, e.g. companies) have significant power; products, prices, location of production facilities and so on may be impacted by their needs. Small customers (those who buy in smaller quantities, e.g. individuals) have far less power and less consideration will be paid to their individual needs.

Stakeholder mapping (Mendelow’s Matrix)

Mendelow's matrix **helps to identify the relationships that should be built with different stakeholders**. A stakeholder's position in the matrix depends on two factors:

Power - The power to influence the organisation, and affect its decision-making.

Interest - The interest which the stakeholder has in the organisation. The greater the interest in the organisation the greater the level of communication that will be required with them. Many employees have little power, but good communication of plans is important to retain their loyalty and motivation. Each **stakeholder is categorised** depending on each factor and **then treated differently** depending on where they are:



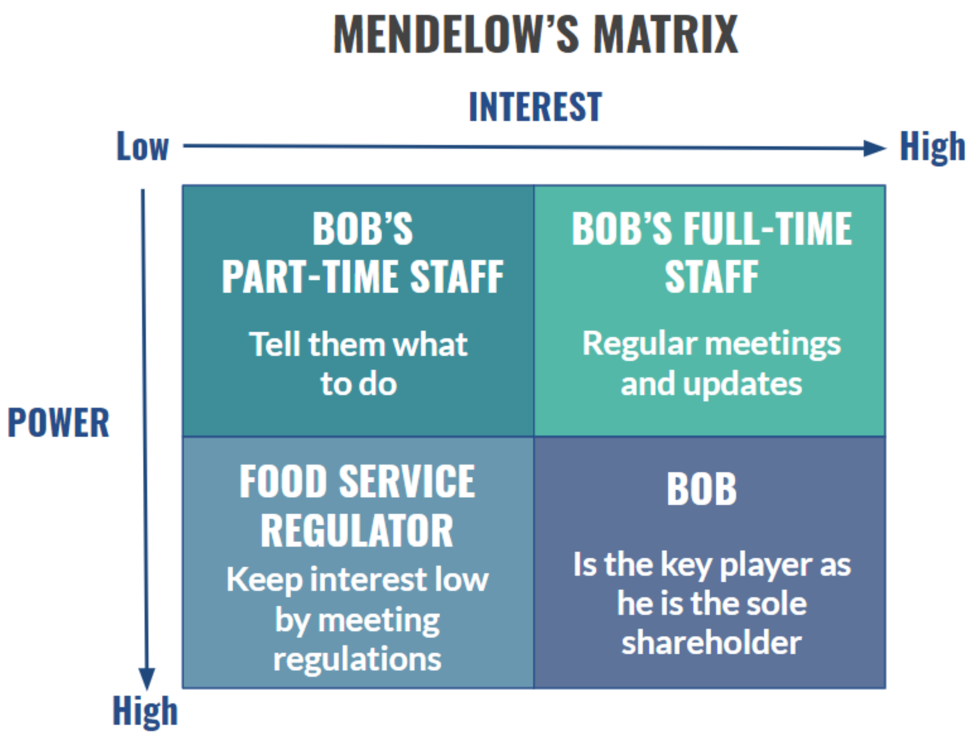
Minimal effort – For example, a temporary employee. Give them basic information to meet their needs, but pay little attention to them in decision making and strategy.

Keep informed – For example, a full time employee. Regularly communicate with them, particularly things they are interested in. This helps retain good relationships and avoids them seeking to increase power (e.g. through staff grouping together in a union).

Keep satisfied - For example, the government. They have high power so to avoid them exercising their power they should be kept satisfied, e.g. by abiding by the law and paying taxes on time. As they usually have little interest, only necessary information is given to them (e.g. profit information to government to help assess tax payable).

Key players (Keep Close) – For example, a major shareholder. Regular communication is maintained and their goals and objectives are included as part of the strategy setting process and business approach.

For Bob's Lunchbox some examples could include:



So, in order to develop and implement a successful business strategy and the objectives that will need to be put in place to support it, an organisation would first need to identify who its stakeholders are and then ensure that their interests and associated level of power are fully addressed.

However, occasionally, despite careful consideration being given, conflicts do arise!

Resolving stakeholder conflict

Where the needs of different stakeholders are not in agreement, the organisation must look to resolve the conflict. Cyert and March proposed four ways in which a company can look to resolve stakeholder conflict. We'll review each using an example:

Polly and her brother are the owners of a small business facing cash flow difficulty. The best solution for the shareholders would be to make one member of staff redundant and all staff want to avoid this. This would conflict with the needs of other stakeholders, namely the employee.

Satisficing

This word, coined by Cyert and March, is a mash-up of 'satisfying' and 'sacrificing'. It means **holding negotiations** between key stakeholder groups **and arriving at an accepted compromise**. Polly, Polly's brother and the employees meet and decide to reduce all employees' hours, instead of making one of them redundant. The solution is not ideal for anyone, but it's a compromise everyone can live with – that's 'satisficing'.

Sequential attention

This involves **taking turns focusing on the needs of different stakeholder groups**. For example, the employee is not made redundant but the agreement is that next time redundancies need to be made, it will be from this department. The idea is that the needs of the employees' are met this time, but next time a different stakeholder's needs will be met, namely the owners.

Side payments

When a stakeholder's needs cannot be met initially, they are compensated in some way as a compromise. For example, one employee is made redundant, but is given a larger than expected redundancy package.

Exercise of power

When a compromise or action cannot be agreed upon it is **resolved by a senior figure who exercises their power to force through a decision**. For example, Polly decides that the redundancy is the best option and pushes through the decision.

6. Governance and the role of directors

Corporate governance is the **way organisations are directed, administered and controlled,** with the aim of ensuring that **the organisation is run in a way that is right for all stakeholders**, in particular the shareholders.

Corporate governance therefore includes:

- Who the directors of the company are

- How the board of directors is run and managed
- How the board manage the company as a whole
- Managing the relationships with shareholders and other stakeholders to ensure their needs are met
- Managing the organisation's goals and strategies to ensure the company is successful

As the business owners, **shareholders are often seen as the most important shareholder for governance** reasons – after all the board of directors are looking after the company on behalf of the shareholders, often with the primary aim of delivering a return for them. However, considering other stakeholder needs is important in governance too – directors should be managing the organisation in a way that considers everyone that might be affected by its decisions.

The **core principles** to which most contemporary discussions of corporate governance tend to refer were raised in three documents released since 1990:

- The Cadbury Report (UK, 1992)
- The Principles of Corporate Governance (OECD, 1998 and 2004)
- The Sarbanes-Oxley Act of 2002 (US, 2002)

The Cadbury and OECD reports present **general principles around which businesses are expected to operate to assure proper governance**. As these are in general terms only and are not compulsory or legislated, they are known as **principle-based approaches** to governance.

The Sarbanes-Oxley Act, informally referred to as Sarbox or Sox, is an attempt by the federal government in the United States to legislate several of the principles recommended in the Cadbury and OECD reports. In governance terms SOX is what is known as a **rules-based approach,** that being one that is **legislated and sets out in significant amounts of detail exactly what must (and must not) be done**.

In the UK, the **UK Code of Corporate Governance** has taken the place of the Cadbury report. It is updated at regular intervals and is relevant to UK companies listed on the stock market. It is largely based on the same principles as the Cadbury report, but it's worth noting that we will only be concerned with this new UK Code. This is also a **principle-based approach**.

The five key principles

So generally, we can boil a lot of the ideas contained within corporate governance down to 5 key principles:

Rights and equitable treatment of shareholders

Organisations should **respect the rights of shareholders and help shareholders to exercise those rights**. They can help shareholders exercise their rights by openly and **effectively communicating information and by encouraging shareholders to participate in general meetings**.

For example, an organisation will hold an AGM. This stands for Annual General Meeting, which is a meeting held once a year with the board of directors and the shareholders in attendance where a number of key issues are discussed and then put to the vote. This gives shareholders the ability to voice any concerns, and vote on relevant matters.

It's very important to make sure that shareholders are given the opportunity to have a voice in the company. After all, they are the owners of the company!

Interests of other stakeholders

Organisations should recognise that they have legal, contractual, social and market-driven **obligations to non-shareholder stakeholders**, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

For instance, with regard to employees, an organisation has a number of legal requirements to ensure that their staff are being given appropriate training, resources, holiday entitlement, health and safety training, etc. Even though the employees don't necessarily hold shares in the company, it's clear that they are an important factor in the performance of the business and a moral duty of care is owed to them.

Role and responsibilities of the board

The **board needs** sufficient **relevant skills and understanding** to review and challenge management performance. It also needs **adequate size and appropriate levels of independence and commitment**.

This principle also relates to making sure that members of the board are appointed based on their skills and experience, rather than their connections in the business-world. Nepotism (giving preference to a family member), or cronyism (appointing friends to positions of authority without regard to their qualifications) is drastically reduced when formal and rigorous procedures are put in place for appointing members of the board.

Integrity and ethical behaviour

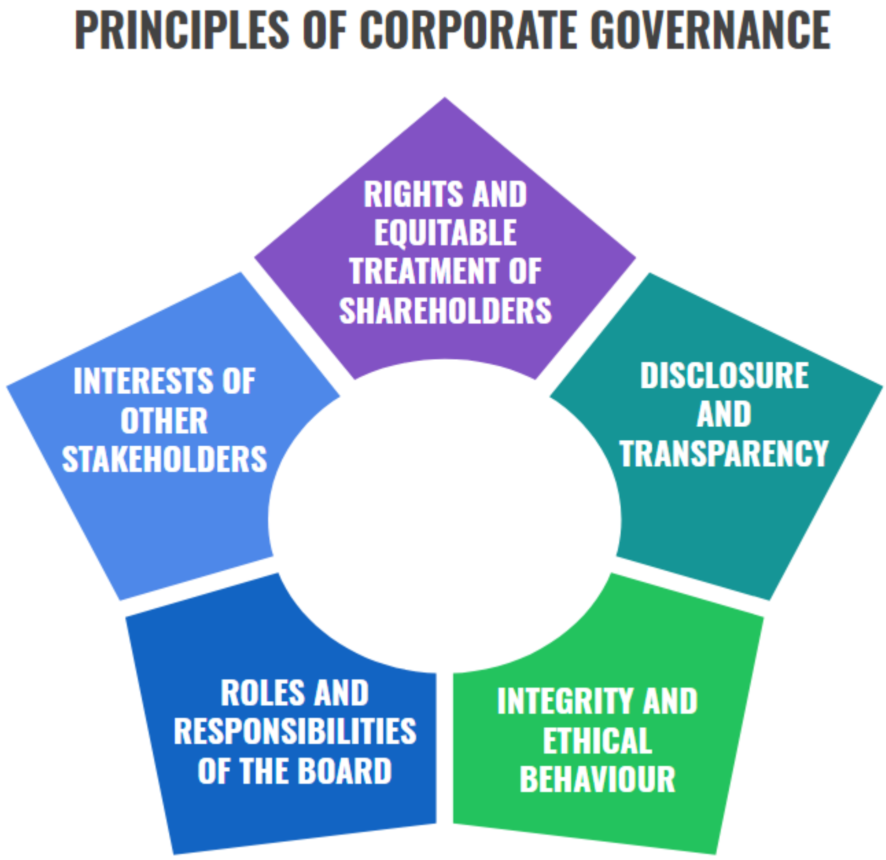
Integrity should be a fundamental requirement in choosing corporate officers and board members. Organisations should **develop a code of conduct for their directors and executives that promotes ethical and responsible decision making**.

Integrity means an individual should behave fairly and always 'do the right thing' acting in a professional manner considering the wider impact of all decisions made on others. As we have seen, there have been numerous cases of chief executives and other top level members of organisations engaging in morally dubious behaviour. Directors should be chosen who show the highest of moral standards to avoid these situations occurring.

Disclosure and transparency

Organisations should clarify and **make publicly known the roles and responsibilities of the board and management** to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material (i.e. significant and relevant) matters concerning the organisation should be timely and balanced to ensure that all investors have access to clear, factual information.

One way that this is done is in the company's annual report where a whole range of both financial and non-financial information is disclosed. Most annual reports will contain a section on the governance of the business including details of the executive and non-executive directors of an organisation, with a breakdown of their key responsibilities and roles. This gives interested parties the ability to identify an individual, or group of individuals, who have responsibility for a particular aspect of managing the business.



Application to the E3 syllabus

The primary focus of governance and the role of directors within the E3 exam syllabus is how **shareholders' interests should be prioritised in strategic decision making**, given the directors' responsibility to wider groups of stakeholders.

Where a strategic decision may be in the interest of shareholders but present a conflict with the interests of a second set of stakeholders such as government regulators, employees, suppliers and so on, this would call for analysis of stakeholder needs via models such as Mendelow's matrix.

For example, a company can maximise profits by disposing of chemical waste in a nearby river and thus meet shareholder needs. However, such a strategy would potentially conflict with the needs and requirements of environmental regulators, pressure groups and the wider community.

7. Corporate social responsibility (CSR)

Imagine if Bob simply dumped his food waste into the Anytown river! Well, apart from being illegal, it would be an irresponsible thing to do. It would encourage rats and probably poison the fish and other animals living in the river. He would be a very bad neighbour. Now, imagine the law said it was actually legal to dump up to 20kg of food waste per week into local rivers. Should Bob take advantage? It would now be legal, but it would still be highly irresponsible, because the ill effects of the activity would still apply, even if he only dumped 1kg. That, in a nutshell, is the concept of Corporate Social Responsibility. **It's about doing what's right for all stakeholders, even when it goes beyond mere compliance** with laws and regulations.

Corporate Social Responsibility is a company's responsibility to the society in which it operates. This means considering all stakeholders as part of the decision making process – not just the "key players".

CSR policies cover issues such as **environmental policy and sustainability**, **health and safety**, **treatment of staff**, **charitable work and contribution**, **and supporting local communities**.

Benefits to business of good CSR

Brand differentiation and reputation

Now you might be tempted to look upon CSR as a compliance issue: a cost of doing business that must be borne. It's actually better to **see it as an investment in something that brings multiple returns**! In crowded marketplaces, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers. **CSR can play a vital role in building customer loyalty** based on distinctive ethical values. Several major brands, such as The Co-operative Group and The Body Shop are built on ethical values.

A good CSR policy and approach can create a good long term reputation for the firm, which supports the development of a strong, well recognised and well respected brand.

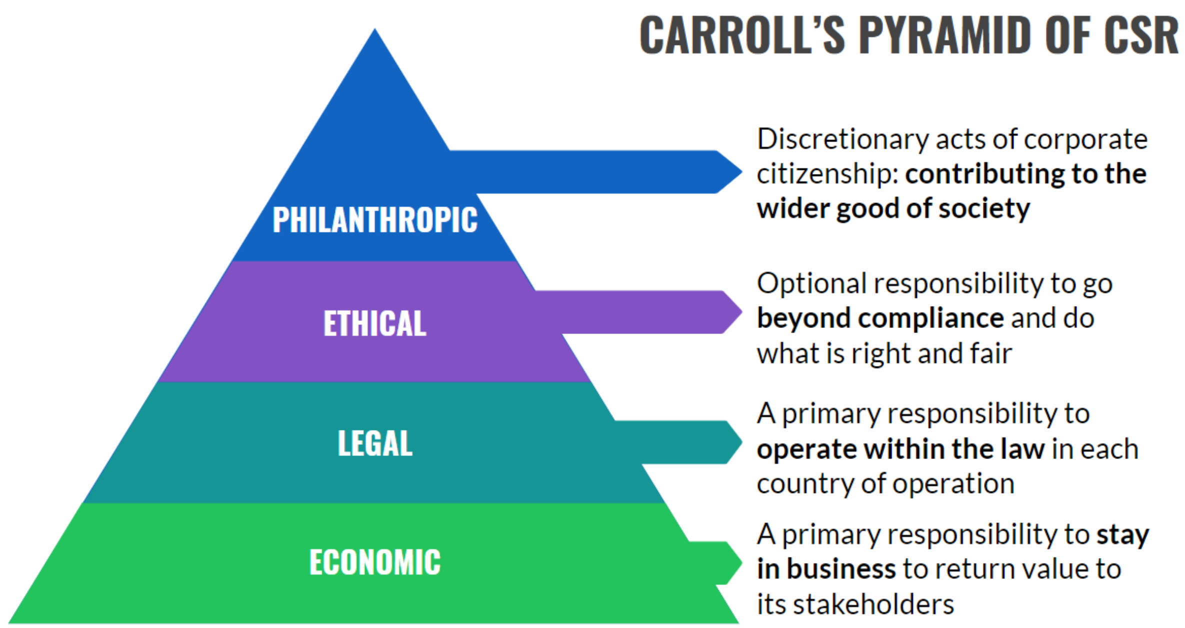
Avoiding regulation

Corporations are keen to avoid interference in their business through taxation or regulations. **By taking substantive voluntary steps**, they can persuade governments and the wider public that they are taking issues such as health and safety, diversity, or the environment seriously as good corporate citizens with respect to labour standards and impacts on the environment. This **will help avoid having standards imposed by law**.

For example, a few years ago, a media scare emerged over parabens, a type of preservative stabiliser used in many personal care products such as moisturiser. No hard data existed to prove its danger, but to avoid regulatory intervention in their industry, manufacturers began voluntarily removing the ingredient. What they quickly discovered was that the removal could be turned into a selling point and products emerged that boasted "paraben free" as a benefit. As a result, the media scare ended there, with no further investigation by the regulatory bodies.

Carroll's Pyramid of Corporate Social Responsibility

So how do you keep track of all the areas you need to work on? **Carroll devised a four-part model for CSR** and argued that any organisation wishing to implement CSR would need to **satisfy each of the following levels**:



Economic responsibility

The organisation has a primary responsibility to stay in business, **return value to shareholders**, pay its employees and deliver quality to customers.

Today public feeling may find the pursuit of cash distasteful, but this is the **primary purpose of a profit-making entity and a necessity for non-profits if they wish to continue to operate**.

For example, a company that spent all its money developing clean energy systems and then couldn't afford to pay its staff would be operating irresponsibly. So keeping the company afloat and generating cash comes first.

Legal responsibility

The organisation also has a **primary responsibility to operate within the law** in each country of operation. It's not just about staying out of jail: the law provides a baseline for acceptable behaviour. So when it comes to developing CSR policies, the **legal requirements provide a starting point and a minimum licence to do business**. Most large companies and particularly multinational companies will have someone working purely on compliance.

For example, in 2012, the UK Advertising Standards Authority referred Groupon to the Office of Fair Trading, a regulatory authority, after the company was found to have broken UK advertising regulations more than 50 times in less than a year. That wasn't just illegal: it was also poor social responsibility.

Ethical responsibility

The top half of Carroll's pyramid looks at discretionary responsibilities. **In theory these responsibilities are optional because the organisation may not be held legally accountable.** In practice, however, they are not really optional, since **unethical practices will eventually create a bad reputation and threaten the primary responsibility of generating wealth**.

Ethical responsibility is about going beyond compliance and doing what is right and fair.

For example, Tesco, the UK supermarket, came under media criticism for its use of private label food brands such as Willow Farms and Boswell Farms. Critics said this gave the impression that the food was sourced from local British farms but in reality no farms of that name existed and most of the food was produced abroad. Legally, Tesco can call its brands what it likes and there is no suggestion that it broke any laws. But critics felt the ploy was unethical and misleading.

Ethics vary from person to person, some think it is unethical to eat meat whereas others do not. Therefore, **it is up to companies to try to maintain ethics that will coincide with those of the society** in which they operate.

Philanthropic responsibility

This is about **discretionary acts of corporate citizenship**: making a contribution to the wider good of society. These are the things that no one expects you to do and **no one will require you to do, but you do them anyway**.

For example, in an effort to provide better technological support for governments that are slow to embrace technology, Google provides Code for America, a charity, with an annual gift of $3 million to develop civic technological solutions. There's no direct benefit to Google, it's just **something the company believes would make the world a better place**.

Example: Bob's Lunchbox

So let's look at our example company and see how it might go about implementing Carroll's Pyramid.

1. Economic. Bob takes care to negotiate the best deal he can on his inputs and eliminate unnecessary cost in his operations, so that he can make the best return possible on his business so he can pay his staff and source food responsibly without concern for price.

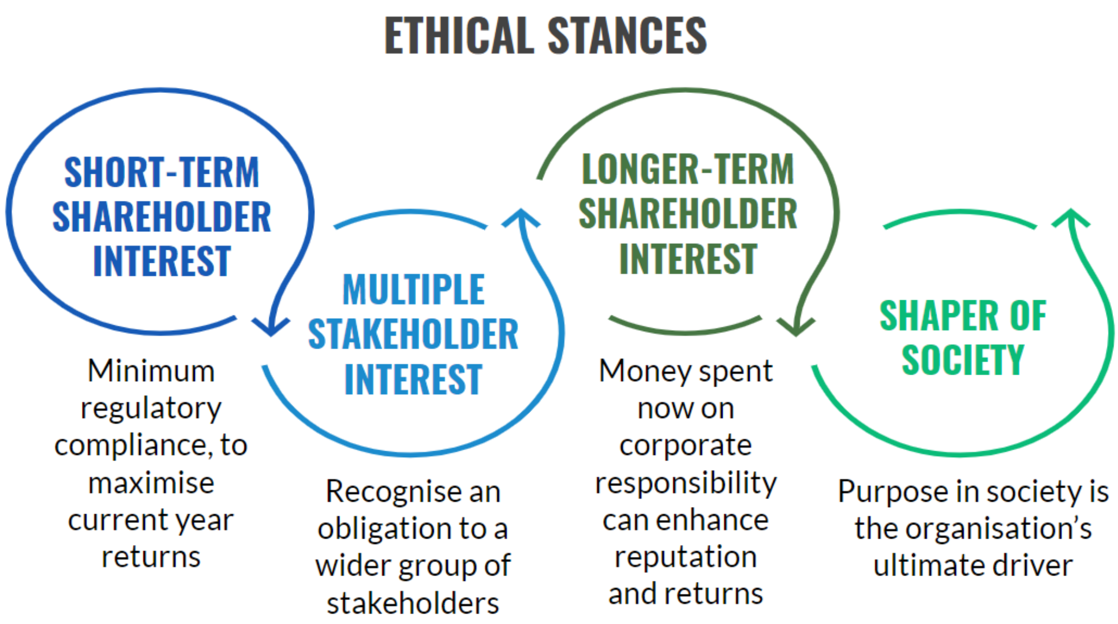
2. Legal. Bob is strict about only using suppliers that have a recognised food safety certification and recent audits in place. He understands that a single breach of food safety law could shut down his business. He uses a CIMA qualified accountant to help prepare his financial statements and tax so he can be sure to be operating within the law.

3. Ethical. Bob trades on the claim that he uses only local organic ingredients. He could get a better price by using industrial suppliers, but that would be unethical, given the claims he makes.

4. Philanthropic. Bob's sandwich store donates food each week to a homeless charity. It also sponsors a number of nutritional and healthy living non-governmental organisations (NGOs). These acts don't directly benefit Bob's business but they do benefit the wider community in which his business operates and they support the overarching vision of his company.

Ethical stances

So how far should Bob go? How will he know when he's done enough? It depends on which ethical stance his company is going to adopt. Johnson, Scholes and Whittington claim there are four stances, which determine "**the extent to which an organisation will exceed its minimum obligations to stakeholders**". Here are those stances:



Short-term Shareholder Interest

This is a stance **designed to maximise returns in the current financial year**. Companies with this stance believe **anything above legal minimum set by governments is not profitable**.

For example, a factory that releases carbon emissions just below the legal maximum is not breaking the law. It could invest in new machinery and process redesign to reduce emissions to close to zero, but that would not be in the short-term interest of shareholders, since the investment is not necessary.

Longer-term Shareholder Interest

This stance takes a slightly longer view of things and **recognises that money spent now on corporate responsibility can enhance the organisation's reputation** and bring returns later.

Walmart tried this argument with its shareholders when some asked the company to justify spending on sustainability. Ultimately, the spending had to be sold as a long-term investment in cost-reduction through renewable energy before it was agreed.

Multiple stakeholder obligation

Organisations taking this stance recognise **an obligation to a wider group of stakeholders than simply shareholders**. It is not a simple case of “government legislates” responsibility, but more “society dictates” it. It involves **recognising a purpose beyond financial**.

The food industry launched a global, cross-industry initiative to end reliance on palm oil, which is responsible for deforestation. This has no financial benefits for any manufacturer, it is simply a recognition of responsibility to a wider set of stakeholders, such as the producing communities, environmental NGOs and the planet as a whole, which needs better forest management to slow climate change.

Shaper of society

An organisation taking this stance sees its **purpose in society as its ultimate driver**, so financial interests are subordinate to performing its role in/for society.

An example might be the John Lewis Partnership (which includes the Waitrose supermarket). Its radical mission is the happiness of its employees, which its commercial activity supports. In JLP's model, all staff are joint owners of the business and the collective employs its directors to run the business in trust, returning shares in the profit to all partners. The directors are, therefore, accountable to the workforce and can be removed.

Sustainability

Let's say you want to manufacture a chemical, but your process uses fossil fuels and causes long-term toxic waste to be leaked into the local area. It's profitable, so it satisfies Carroll's first level of CSR. But is it sustainable?

Well, no. It can't be sustained indefinitely as a business, because there is only so much fossil fuel left on Earth. Once it's gone you have no business model. Secondly, the activity itself damages the environment that future generations will need to survive in.

That's the notion of sustainability in a nutshell. **It's using resources in such a way that we don't compromise the needs of future generations**. It's about challenging short-termism in the way we operate our activities, both internally and externally and focusing on the long-term sustainability of both the business and its environment.

Cost savings through sustainable development

Ironically, **focusing on long-term sustainable development can bring short-term profitability increases through cost-savings.** For example, harvesting rain water instead of turning on the taps will bring long-term environmental benefits, but will also save on your water bill. The same is true of solar energy to generate electricity, or natural lighting in stores. Corporations looking for investments from shareholders and banks to fund their sustainability programmes soon realised that selling the story that way achieved better buy-in.

Building CSR into the organisation

So, coming back to Bob and his food waste. Bob should carry on as he is and just hire a CSR expert to implement this, right? You guessed it. Wrong! **CSR is far too important to leave it to one function or division** of your company to implement and will only lead to conflicts of interest within the organisation. To be effective, **CSR needs to be built into the decision-making process** for the whole organisation. There are a variety of ways of doing that. Let's look at them:

Mission and objectives

Inclusion of **CSR values within the mission statement has become common practice**, they help to ensure that CSR is considered within all strategies and that objectives are achieved without compromising the company's CSR policies.

Creating focused CSR objectives with clear plans for achievement also helps focus CSR activity, particularly when these are linked to managerial performance and reviewed regularly.

Let's revisit Bob's mission statement:

To become the UK's most-loved lunchtime destination, by making quality sandwiches, filled with local organic produce, for Britain's busy professionals.

Bob could improve it with the inclusion of specific corporate social responsibilities, for example he could write:

To become the UK's most-loved lunchtime destination and help sustain local environments, by paying a fair price for local organic produce, to create healthy produce for Britain's busy professionals.

CSR Policies

A **CSR policy is an internal statement of rules and expectations** on CSR issues to be applied within the organisation. It sets out the **organisations values and clear rules to be followed in relation to many ethical and social issues**.

So for example, Bob could set a policy of never paying less than market rate for produce, or of never setting unfair production targets that made it economically impossible for producers to continue supply sustainably. When Bob's business expands and he no longer directly oversees procurement, his policies will set out the rules for his staff to follow.

Benchmarking

Benchmarking **enables comparison of CSR performance against other organisations**. It involves reviewing competitor CSR initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, as well as how customers perceive competitor CSR strategy. After a comprehensive study of competitor strategy and an internal policy review has been performed, **a comparison can be drawn and a strategy developed for CSR** initiatives.

So for example, Bob could take a look at what Snackpack, his main competitor, does as a corporate citizen and aim to close the gap between his policies and theirs.

Social accounting, auditing, and reporting

Social accounting involves **accounting for and reporting the social and environmental effects** of a company's economic actions.

A number of reporting guidelines or standards have been developed to serve as frameworks for social accounting, auditing and reporting including:

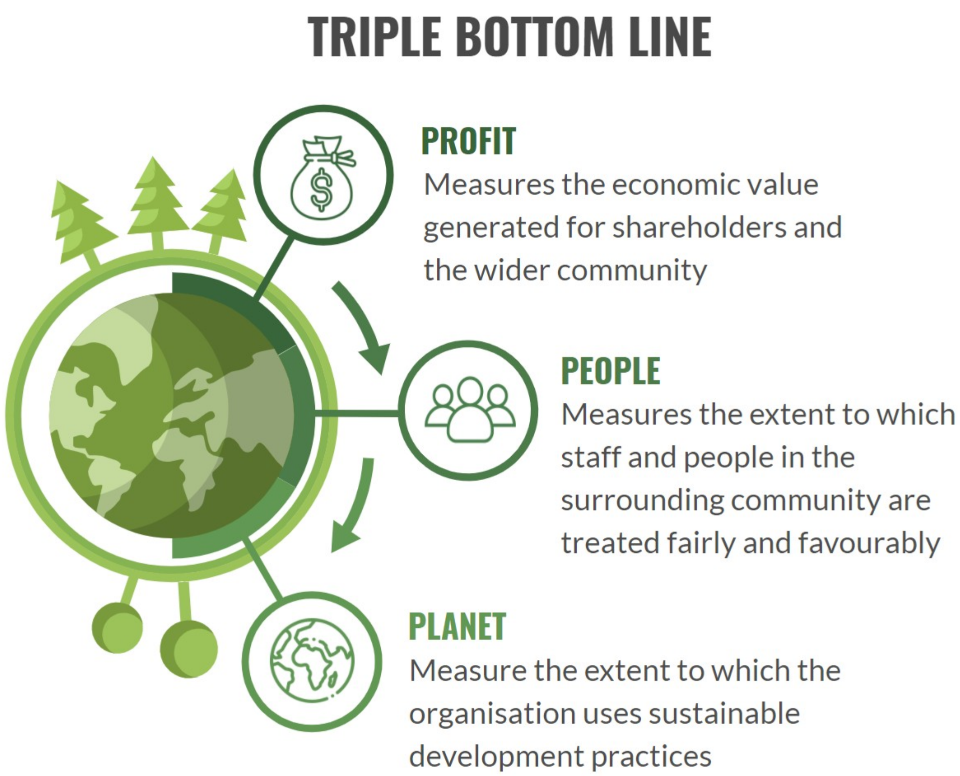
- Global Reporting Initiative's Sustainability Reporting Guidelines
- The ISO 14000 environmental management standard

In some nations, legal requirements for social accounting, auditing and reporting exist although there is little international agreement on what constitutes meaningful measurement of social and environmental performance.

One way Bob could implement this would be to adopt the so-called Triple Bottom Line.

Triple Bottom Line

Many companies now produce **externally audited annual reports that cover Sustainable Development and CSR** issues. But the reports can vary widely in format, style, and evaluation methodology (even within the same industry). **A common methodology is the Triple Bottom Line** (TBL). TBL is a way to expand the traditional reporting system beyond the merely financial and suggests organisations measure:



Profit

This measures the **economic value generated** by the organisation, both for **shareholders and for the wider community in which it operates**, e.g. job creation.

People

This measures the extent to which **staff and people in the surrounding community are treated fairly and favourably**, e.g. good working conditions and benefits; organisation invests in local amenities.

Planet

This measure the extent to which the **organisation uses sustainable development practices**, e.g. reducing impact of operations on environment via renewable energy or waste and emissions reduction.

Example

So how does all this relate to Bob and his sandwich store? As we saw with the mission statement, a degree of CSR is built into the company purpose. Does it go far enough? Bob will need to make sure when the company begins to expand that it does so responsibly.

Let's look at what Bob's competitor, Snackpack, says about CSR:

"**The Snackpack® system is committed to providing a wide range of great tasting, healthier food choices while reducing our environmental footprint and creating a positive influence in the communities we serve around the world**."

So you can see CSR right there in the mission! But the company also makes measurable written commitments to sustainable sourcing, nutritional leadership, energy efficiency, water conservation, water quality and waste reduction. It goes on to add that in the communities where it operates, it actively encourages diversity, healthy and active lifestyles, and entrepreneurial spirit. It provides specific figures to support its claims to diversity within the organisation and ... well, you get the picture. Snackpack has thought long and hard about CSR and made it an integral part of how it does business. If Bob wants to compete, he'll need to do the same or even better.