

Lecture 1 / 2 – Introduction (Sept. 7, 2011; Sept. 9, 2011):**What is social context of business?**

- Actions of a business have an impact on the community, and vice versa.
- The actions of a business affect direct and indirect stakeholders
- The problem: many business leaders don't comprehend the consequences of decisions

Difference b/t “Management” & “Social Context of Business”:

- Management: Planning, organizing, controlling (POC) – used to manage a business
 - Puck analogy: Management has puck, controlling the business
- Purpose of business:
 - Maximize wealth of the shareholders
 - Ability to make profit influenced by many factors:
 - Competition, Government, Civil society, and environmental/social concerns etc.

The Canadian Domestic Socioeconomic:

- Business Segment – All forms of “for profit” business ownership:
 - Corporations; Partnerships; Proprietorships
- Government Segment – All levels of gov't:
 - Federal; Provincial; Municipal
 - Crown corporations
- Social Society Segment:
 - Organized/unorganized social networks:
 - Communities; NGOs; charities; volunteers; philanthropic efforts

Drivers of Change in Canada's Social Context:

- Population demographics – aging; diverse/multicultural population:
 - Baby boomers are **highest earners**; represent the **largest cohort**
 - Older people buy different products (from minivan → Mercedes)
 - Who will replace this cohort in the workforce when they retire? (700k jobs/year with no replacements due to aging population)
 - Affects gov't:
 - Older population can influence public policy (largest voting cohort). Will demand for things such as: tax breaks; pension management; personal services
 - Affects civil society:
 - Baby boomers influence agenda of civil society organizations
 - Baby boomers largest group of potential volunteers
 - Baby boomers largest group of charitable supporters
 - Most baby boomers well connected & experienced
- Advances in information communication technologies:
 - Affects business:
 - Instant communications
 - Greater visibility of business activities → increased stakeholder expectations

- Greater competition (e-commerce)
 - New stakeholder paradigms
 - Ownership of intellectual capital
- Affects gov't:
 - Instant communications (real-time access to gov't information & services)
 - Greater visibility of gov't policy, issues, & allows for greater public scrutiny on actions of the government
 - New info-tech technologies allow for alternative program & service delivery methods.
- Affects civil society:
 - Increased ability to influence gov't & businesses
 - Increased capacity to get public support for biz/gov't agendas
 - Increases complexity of issues & increased demands on services
 - Public safety & privacy concerns
- Globalization:
 - Affects Business:
 - Pressure to innovate (unpredictable competition from everywhere)
 - Multicultural workforce
 - Manufacturing/logistics activities in foreign countries
 - Cross-border issues
 - Security & safety issues
 - More sophisticated products & changing consumer tastes
 - Affects government:
 - World trade/co-operation
 - Increasing political influence on trade from other countries
 - Need to work with different gov'ts in different cultures/political systems to effect economic growth
 - Countries must recognize the plights/issues of developing nations
 - Affects civil society:
 - Increasing knowledge of other societies, & how these societies interact with their own gov'ts & businesses
 - Greater sophistication/complexity of civil society issues
 - Opportunity to work more collaboratively with gov't/businesses

Integrity – The appropriateness of a corporation's behaviour and its adherence to moral guidelines acceptable to society such as honesty, fairness, and justice.

Stakeholder – Individual/group who can influence and/or is influenced by the achievement of an organization's purpose.

Lecture 3-7 – The Canadian Business Sector (Sept. 12/14/19/22/26, 2011):

- Biz needs to understand the context in which it operates in, in order to sustain itself and prosper.
- Businesses primarily have an economic mission; and must fit in to become part of the bigger context.
- $GDP = Consumption + Investment + Gov't expenditures + net international trade$

- Canadian Economy in the World:
 - 15th largest economy by GDP size
 - Among top country for median/per capita income → high standard/quality of living
 - Major trading nation (especially minerals & natural products)
 1. Net exporter of energy; with 2nd largest proven reserves of oil
- The Canadian Business Segment:
 - Globalization:
 1. Opened new markets for Canadian business
 2. Forced greater competitiveness
 3. Canada is global member (NAFTA, WTO, UN, IMF, G8, G20 etc.)
 - Early 1990s recession
 - Technology boom:
 1. New skill set required
 2. New business models needed
 3. Employment creation/destruction
 - Technology/biotechnology growth:
 1. Impact on business strategy/industrial policy
 2. Provokes new ethical debates
- Forms of Business Ownership:
 - Sole proprietorship:
 1. Simplest form; available to anyone who is able to enter binding contract
 2. Falls under provincial/municipal jurisdiction
 3. Owned & operated by one person
 - Partnership:
 1. When 2 or more persons combine resources, & share profits among partners.
 2. Partnership must legally register name & give info about partners
 3. 2 types – General & Limited:
 - General Partnership:
 - Partners not only liable in equal share for the debts of the partnership, but in addition, each partner liable for full amount
 - Each partner can bind the partnership without consent
 - Limited Partnership:
 - Composed of general partners who conduct biz, & partners who contribute only cash (limited/special partners)

- Special partner's liability limited only to the amount of cash he/she contributed
- Corporation:
 1. Legal entity under law (can be incorporated federally/provincially)
 2. Can carry on business in all parts of Canada
 3. 2 types - Private or Public:
 - Private:
 - Right to transfer shares is limited
 - Limited to 50 shareholders
 - Cannot sell shares to public
 - Public:
 - Sells shares to public on stock market
 - Needs to file financial reports, & follow audit procedures
- Co-operatives:
 1. Organization working to build community involvement by supplying goods/services at lower costs (financial co-op, service co-op)
- Franchises:
 1. Business operating under authorization to sell company's goods/services
- Family businesses:
 1. 2/3 of Cdn business enterprises controlled by families (10, 000 family businesses in Canada)
 2. Founder/family members often in executive positions; hold enough shares to make decisions & control operations.
- **Governance** – How an organization steers itself:
 - Values; rules; processes; impact; accountability; responsibility
 - **Corporate Governance** – The processes, structures, and relationships through which the shareholders, as represented by a board of directors, oversee the activities of the business enterprise.
 - **OECD definition of Governance:** The full set of relationships between a company's management, its board, its shareholders, and its other stakeholders such as its employees and the community in which it is. (OECD = Organization of Economic Co-operation & Development)
 - 3 key players:
 1. **Shareholders:**
 - The de-facto owners of the corporation → interested in return on investment
 2. **Board of Directors:**
 - Director's role: 3 elements:
 - Strategic direction for survival/prosperity

- Performance supervision of key executives
- Accountability to shareholders & other stakeholders
- Responsible for governance (accountability/management & control systems, financial reporting, risk, performance etc.)
- Elected by shareholders to represent their interests (also to govern/oversee the corporation's affairs)
- Fiduciary duty/ duty of care (prescribed by laws/regulations):
 - To act in good faith
 - To exercise powers properly for the purpose for which they are conferred
 - To avoid conflict of interest
 - To prevent improper payments
 - To make decisions in the best interest of company
 - Consider other stakeholders
 - Equal consideration to all shareholders
 - No personal profits @ company expense
 - Declare conflicts of interest

3. **Officers:**

- Senior employees who oversee daily operations (e.g. President, CEO, Members of the senior management team etc.)

○ Governance Failures:

- Enron/WorldCom/Tyco/Peregrine Systems
- Adversely affects many parties, both direct & indirectly (shareholders, employees, suppliers, communities, gov't, civil society etc.)

○ Principles of Good Governance:

1. Lay solid foundations for management & oversight
2. Structure a board of directors that adds value
3. Promote ethical & responsible decision-making
4. Safeguard integrity in financial reporting
5. Timely & balanced disclosures
6. Respect the rights of shareholders
7. Recognize & manage risk
8. Encourage enhanced performance
9. Remunerate fairly & responsibly
10. Recognize the legitimate interest of stakeholders

- ✓ Ensuring the basis for effective corporate governance framework.
- ✓ Equitable treatment of shareholders

- ✓ Proper disclosure & transparency
- ✓ Rights of shareholders/key ownership functions maintained
- **Pluralism** – a condition in which there is diffusion of power among society’s many groups and organizations (a wide decentralization & diversity of power concentration)

<u>Diffusion of Power</u>	
<u>Strengths</u>	<u>Weaknesses</u>
<ul style="list-style-type: none"> • Prevents concentration of power • Maximize freedom • Disperse individual allegiances • Creates diversified loyalties • Provides safeguards 	<ul style="list-style-type: none"> • Pursuit of self-interest • Proliferates organizations with similar goals • Forces conflicts • Promotes inefficiency

- **Shareholder vs. Stakeholder Viewpoint:**
 - Shareholder view:
 - Business exists to make money → greatest efficiency thru profit maximization
 - Larger profits = more taxes paid for gov’t use with social issues
 - Stakeholder view:
 - Business has responsibility to do more than maximize profits
 - Business causes problems → responsibility to fix them
 - Society provides existence of businesses thru legal frameworks

- **Stakeholders Explained:**
 - Realities about Stakeholders:
 - Stakeholders’ interest will not always be clear
 - Some stakeholders will win, some will lose
 - Stakeholders look out for how the company treats other stakeholders
 - Stakeholders not static
 - Stakeholder contributions essential
 - Identifying Stakeholders:
 - Internal vs. External:
 - Internal → employees/shareholders/managers
 - External → customers/suppliers/gov’t/competition/community
 - Primary vs. Secondary:
 - Primary → stakeholders that have a direct interest in the organization & its success
 - Secondary → those that have a public/special interest in the organization
 - Core vs. Strategic vs. Environmental:

- Core → essential to the firm's survival
 - Strategic → directly affected by threats & opportunities the organization faces
 - Environmental → all others in the organization's environment
- Legitimacy vs. Power vs. Urgency:
- Legitimacy → perceived validity of the stakeholder's claim to a stake
 - Power → the ability of a stakeholder to produce an effect
 - Urgency → degree a stakeholder's claim demands immediate attention

Figure 4.4 STAKEHOLDER TYPOLOGY: ONE, TWO, OR THREE ATTRIBUTES PRESENT



Source: Ronald K. Mitchell, Bradley R. Agle, and Donna J. Wood, "Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts," *Academy of Management Review*, Vol. 22, No. 4 (1997): 874. This work is protected by copyright and it is being used with the permission of Access Copyright. Any alteration of its content or further copying in any form whatsoever is strictly prohibited.

- Managing Stakeholders:
- Multi-stakeholder Dialogue → Deliberate communication with stakeholders in a proactive approach
 - Consensus building as the goal
 - Challenges: too much input can stagnate the organization; creation of high expectations by stakeholders may not be able to be met.
- Multi-stakeholder Governance:
- A voice in governance is given to stakeholders to create a sustainable & competitive advantage... which leads to decision making no longer the sole domain of the manager/organization. Contributions are required from all key stakeholders.

Lecture 8-9 – The Canadian Government Segment (Sept. 29, Oct. 3, 2011):

- Canada → constitutional monarchy (basic law that is supreme law of the land. Outlines how the gov't functions/responsibilities), federation & parliamentary democracy.

- QE II is Queen of Canada & constitutional head of state (Monarch delegates her duties to the GG & provincial lieutenant-governors)
- PM & cabinet advises the Queen, but cabinet holds the power & determines public policy
- Constitution defines division of power among different levels of gov't (Constitution Act 1867, Constitution Act 1982, Cdn Charter of Rights & Freedoms, Conventions/traditions)
- **Cdn Federal Gov't:**
 - Governs with the “Westminster Model” of gov't
 - Three branches:
 1. Legislative – House of Commons & Senate:
 - a. Focus on legislation/laws; holds government to account
 - b. 308 seats in HoC
 - c. Senate: 105 seats/ appointed by PM/ must retire at 75/ revising & investigatory body for legislation/ Bills passed in HoC pass through Senate & its committees for discussion & amendment & recommendation, then back to HoC for “royal assent”
 - d. Public service is 3rd & largest component of Executive branch.
 - i. Public servants work to “translate the declarations and definitions of public policy into action” devising options for actions from which Ministers decide on a course of action.
 - ii. Professional, non-partisan public service important
 - iii. Public service responsible for giving best advice to the gov't
 - iv. Permanence & continuity
 - v. Public service appointed on basis of merit
 - e. Departments & Agencies:
 - i. PM decides on # of gov't depts.
 - ii. Departments responsible for designing policies/delivering programs to public/ managing regulatory aspects
 - f. Crown Corporations → operated by gov't, need to be accountable to BoD appointed by gov't.
 - g. Central Agencies → Privy Council, Treasury Board, Department of Finance Canada.
 2. Executive – PM, Cabinet, Public Service:
 - a. Gov't policy direction / Program & service delivery / Gov't admin
 - b. PM selects Cabinet, who make all majority policy decisions
 - c. PM establishes **Committees of Cabinet** to handle streams of policy issues.
 - d. PM recommends appointments to GG (ministers, chief justice, speaker of senate, senators, deputy) (PM also recommends appointment of GG to the Queen)
 3. Judicial – independent of Cabinet, Parliament, or other state institution:

- a. Interpret law, and enforcement through courts.
 - b. Cdn system inherited from common law tradition of England
 - c. Judgements of Supreme Court are binding on all other courts
 - d. Judges of Supreme Court appointed by GG (3 from Québec) on advice from Cabinet, hold job till 75.
- **Legislative Process (Federal):**
 - Introduction
 - First Reading
 - Second Reading (most important – principle & details are debated then accepted/rejected/amended)
 - Third reading
 - Senate
 - Royal Assent
 - **Public Bills (2 types):**
 - Gov't bills introduced & sponsored by a minister
 - Only a minister can introduce bill for appropriation of public money or for taxation, and only in the HoC.
 - **Private Bills** → matters of particular interest or benefit to a person/persons, including corporations.
 - **Parliamentary Committees:**
 - Standing Committee → focus on a substantive sphere of gov't policy (e.g. public accounts committee)
 - Special Committees → examine specific issues (e.g. pensions, child care)
 - Legislative Committees → examine specific gov't bills after they have passed 2nd reading
 - Committee of the Whole → All members of either the Commons or the Senate.
 - Sources of Legislation: The public, the gov't (PM & cabinet), public service, parliament (Commons & Senate), the judiciary
 - **Public Policy** → whatever gov'ts choose to do or not to do
 - A course of action/inaction chosen by public authorities to address a problem, expressed in the body of laws, regulations, decisions & actions of government.
 - Steps:
 1. ID the problem/definition
 2. Setting the agenda
 3. Formulating the policy
 4. Implementing the policy
 5. Evaluating the policy
 - **Public Policy vs. Market Process:**

- Market process → exchange, private goods, economic values, self-interest, invisible hand, producers-consumers, consumer sovereignty, profits as rewards, business firms, efficiency principles.
- State Process → political, public goods, diverse values, public interest, visible hand, politicians-citizens, citizen sovereignty, power as reward, government agencies, and justice principles.
- Key Issues in Canadian Gov't:
 - Increasing efficiency, cost-effectiveness, accountability.
 - Horizontal management of issues
 - Increasing citizen engagement, accessibility.
 - Also: infrastructure, national security, free trade.
- **Gov't Activity:**
 - Lots of goals, lack of any clear distinction between means and ends
 - Cdns expect gov't to solve problems for which there are no solutions: pollution, unemployment, social responsibility, int'l trade.
 - Political efficiency is sought
- **Institutional Context of Government:**
 - Activities transparent & subject to public review by lots of stakeholders
 - Every voter is a stakeholder, every vote matters, but it's impossible to put into play every stakeholder's interest.
 - Gov't is much more complex than the largest businesses
 - Gov't is large with enormous geographic distribution
- **Key General Issues:**
 - Increasing efficiency, cost-effectiveness & accountability:
 1. Federal Accountability Act & Lobbyists Registration Act
 2. Being responsible stewards of the public purse
 - Horizontal management of issues:
 1. Costs of working together often underestimated
 2. Working horizontally requires management of more complicated performance indicators, reporting relationships and accountabilities
 3. Working horizontally would lead to better policy outcomes but would not necessarily result in cost-savings.
 - Being more citizen-centric:
 1. Engage public participation, accessibility to the public
 2. Improve decision quality
 3. Opportunity to build consensus, credibility, & legitimacy
 4. Opportunity to anticipate public concerns/attitudes

- **3 Specific Issues:**
 - Infrastructure → roads/bridges etc. Important because, foreign investment can be discourages. Adequate infrastructure draws demand for knowledgeable workers, creates employment, and enables trade.
 - National Security & Arctic Sovereignty → Significant amount of waterways, long border, need for balanced immigration approaches. Also, melting polar cap can open Northwest Passage through Lancaster Sound creating additional security issues but also catalyzing the debate over whether this would be a territorial body of water or international strait.
 - Free trade between Canada's provinces:
 1. Accounts for 1/5th of Canada's GDP, 2 million jobs
 2. "Trade barriers exist" → regulatory standards b/t jurisdictions, different licensing requirements, labour barriers etc.
 3. "Trade Barriers do not exist" → Perceived "barriers" are really differences in gov't procurement systems, labour standards, consumer protection measures, environmental regulations & taxes
 4. Constitutional concerns/intergovernmental tensions

Lecture 10 – The Canadian Government Segment (Oct. 6, 2011):

- **Civil Society** → 'third segment' → non-profit/ not for profit/ voluntary/ independent/ "community" (e.g. United Way, charities etc.)
 - Reciprocal relationships → engagement, trust, commitment, obligation, cooperation etc.
 - Smaller, more cooperative, less hierarchical organizations
 - Less emphasis on cost & accumulation, emphasis on public participation
 - Important placed on gratitude, obligation, reciprocity
 - 5 roles:
 - *Monitoring* through which policy is kept honest
 - *Advocacy* through policy options can be supported/not supported
 - *Innovator* through which different ways of doing things are developed/demonstrated
 - *Service provider* through which particular need is fulfilled
 - *Capacity builder* through which support is provided to other civil society organizations
- **Community** → "locality" / "common interests" → Shared characteristics, values, interests, goals that provoke a sense of belonging/ closeness/ warmth/ protection/ engagement.
- **Communities** → can be occupational (e.g. accountants).
 - Can occur within organizations (professors, accountants, auditors)
 - Can be based on: skills, gender, age, ethnicity, or a combination

- **Contemporary Civil Society Segment** → involved communities, NGOs/Interest groups/Associations, Knowledge groups/institutes/think tanks
- **Social Capital** – norms, networks and other related forms of social connection:
 - Defined as relationships, networks & norms that facilitate collective action
 - Directs relationships to shape the realization for human potential
 - Formal → parent-teacher association, labour unions etc.
 - Informal → People gathering at a bar every Thursday night
 - Densely interlaced/comparatively invisible → work together every day, goes bowling together, attend the same church.
- **Segment Fragmentation:**
 - 160k NPO + 1000s of community groups with:
 - Different issues/missions, highly diversified, varying management
 - Challenges:
 - Being heard by gov't & industry
 - Getting on the gov't or biz agenda
 - Partnering with gov't and business