BUSS1002 – Final Exam Comprehensive Notes

Week 1 – Unit Introduction

Opportunities & risks: managing outcomes

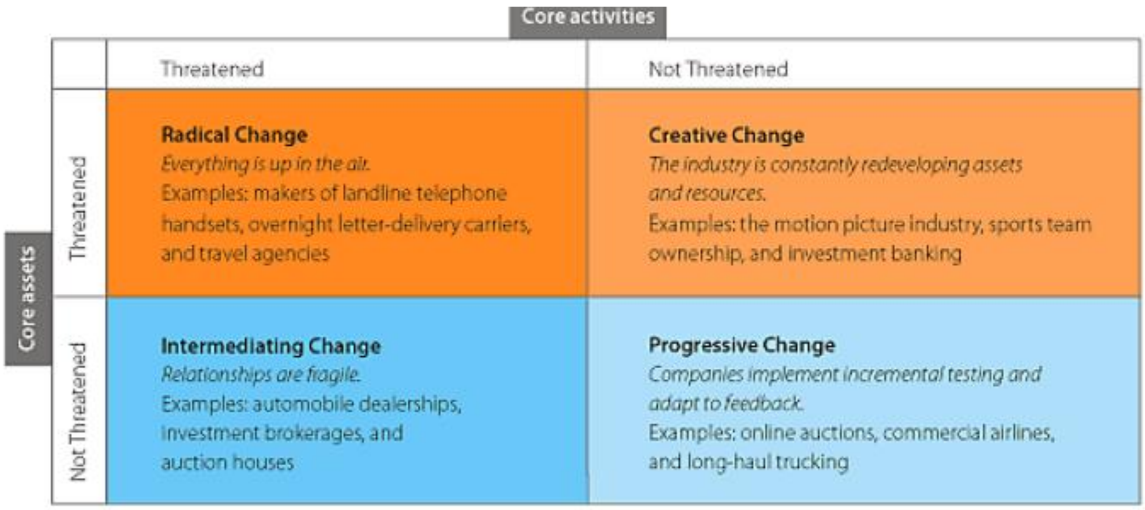
- 2 sides to risk: the potential for loss (downside) and the opportunity for higher profit and growth (upside).
- An opportunity can turn to risk – or vice versa - at slow or at great speed.

PEST model of analysis

- Markets – Economic environment
- States – Political environment
- Societies & cultures – Socio-cultural environment
- Technology – Technological environment

Change and strategy – the wider external level (local to global)

- Industries changes



(HBR 2004)

Week 2 - Corporate Social Responsibility (CSR)

Business and society

- Business: key player in society, a major change agent, has the potential to be a 'force for good' or 'for evil' and drives growth and prosperity
- Society: business does not operate in a vacuum, society impacts on business and is constantly changing and so must business

Working definition of CSR

- 'Corporate social responsibility (CSR) is the notion that corporations have an obligation to society to take into account not just their economic impact but also their social and environmental impact.'
- Garriga and Melé definition: 'Corporate social responsibility means something, but not always the same thing to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behaviour in the ethical sense; to still others, the meaning transmitted is that of 'responsible for' in a casual mode; many simply equate it with the charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for legitimacy in the context of belonging or being proper or valid; few see a sort of fiduciary duty imposing higher standards of behaviour on business-men than on citizens at large.'

CSR theories (Garriga & Melé)

1. Instrumental theories: in which the corporation is seen as only an instrument for wealth creation, and its social activities are only a means to achieve economic results.
   - They are about achieving economic goals:
   - Maximising the shareholder value
   - Strategies for achieving competitive advantages
   - Cause related marketing

- Example: Mount Franklin supports for breast cancer (Cause-related theory as their predicted main market is women who drinks more water)

2. Political theories: these theories are about the power of corporations in societies and responsible use of this power in the political arena.
   - Focus on the relationship between society and organisations and its responsibilities.
   - Corporate constitutionalism – business is a social institution and must use power responsibly
   - Integrative social contract theory
   - Corporate citizenship

- Example: KPMG helping out the society.

3. Integrative theories: the corporation is focused on the satisfaction of social demands.
   - Looks at organisations response to social demands. The argument here is that business needs society for existence, continuity and growth.
   - Issues management – manage social issues
   - The principal of public responsibility
   - Stakeholder management – specific issues/stakeholder management
   - Corporate social performance

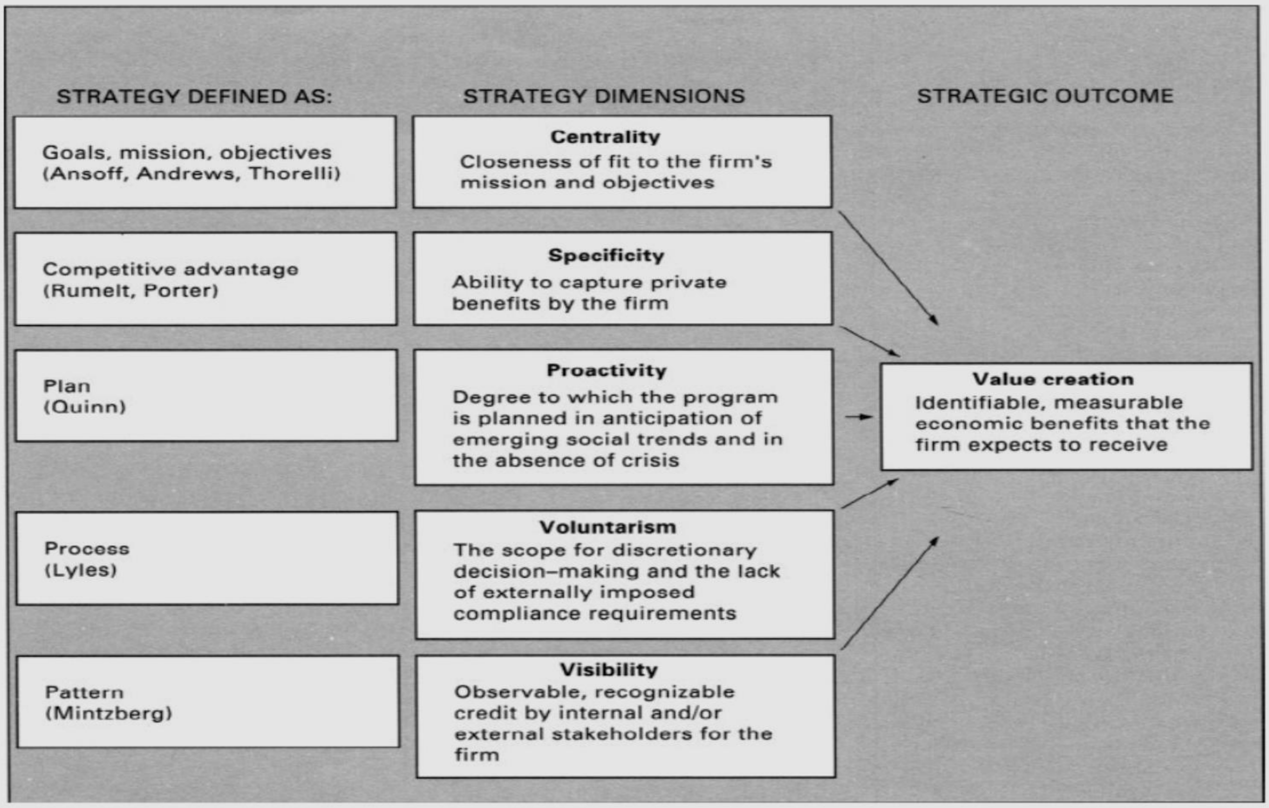
4. Ethical theories: these theories are based on ethical responsibilities of corporations to society.

-These theories are based on the ethical contract between business and society.

- Normative stakeholder theory - Set of normative core ethical principles to make sure managers execute their responsibilities to their stakeholders.
- Universal rights – human rights, labour and environment
- Sustainable development
- The common good approach

• Example: Toyota incorporates ethics into their decision-making process.

How CSR pays off



(Burke and Logsdon 1996)

How to achieve Strategic CSR

- Identify stakeholders.
- Find socially valuable CSR policies your stakeholders will appreciate.
- Analyse these CSR projects in helping the firm overcome certain problems.
- Can the benefits be internalised by the firm.
- Anticipate future changes in the firm's environment and changes in the needs of its stake holders and identify CSR policies and activities.

- Determine the minimum basic requirements the firm is bound to deliver and identify where there are opportunities for voluntary activities.
- Make sure the firms CSR activities are clearly visible by the key stakeholders
- Measure and compare the potential value expected from CSR projects.

Week 3 - Sustainability & Social Enterprises

Planned Obsolescence

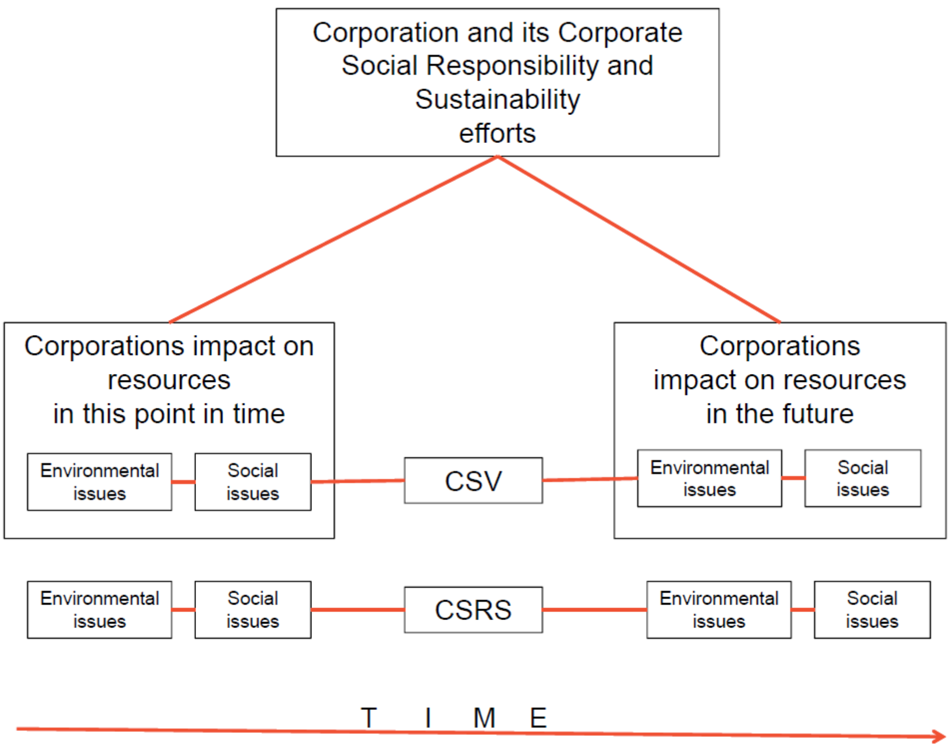
- In industrial design and economics is a policy of planning or designing a product with an artificially limited useful life, so it will become obsolete, that is, unfashionable or no longer functional after a certain period of time.

Short-termism

- 'Decisions and outcomes that pursue a course of action that is best for the short-term but suboptimal over the long run.'

Sustainability

'Business sustainability is the ability of firms to respond to their short term needs without compromising their (or others') ability to meet their future needs'.



Shared Value

Incorporation of social consideration in private sector	**Partial commercialisation of charity**	**Business opportunity through the lens of a social problem**
■ Profit focus ■ Creating Shared Value (CSV) and CSR	■ Social focus ■ Social enterprise	■ Shared value

Week 4 & 5 -The economic environment

Economic systems

How do economic systems affect businesses?	
1. Freedom to: - hire and fire; - set prices, quantities, production methods - buy and sell freely; - grow, run for profit; - organise freely; and - Enforce legal contracts.	2. Protection from: - abuse of market power; - IP theft (incentives to develop new tech.) - Arbitrary exercise of state power. (greater economic right leads to greater prosperity)

Types of economic systems:

	Key features:	**Implication for business:**
The free market economy ('capitalism'; 'market economy'; 'Anglo-Saxon model')	- Minimal government intervention and barriers to entry. - Prices and quantities set by market (by forces of supply & demand) - Emphasis on property rights, profits, and competition.	- Innovate or perish! (e.g. Nokia didn't innovate enough in the market)

The social market economy (France)	- Shares free market emphasis on competition and private property ownership; - Some state ownership or oversight in 'key industries', e.g. utilities, hospitals, etc. - Generous safety net.	- Innovate or perish (still a drive for firms to innovate) - Potentially high regulatory costs. (e.g. costly labour)
The planned economy ('command economy') (relatively inefficient) Leads to international arbitrage	- State ownership and planning - Prices and quantities set by diktat (by them making assumptions);	- Private enterprise and competition restricted; - Little incentive for private individuals to innovate; - Disequilibrium resulting from poor planning. Shortages, black markets, businesses operating illegally
The transitional economy	- Moving from planned to free market economy; - Prices liberalised (liberalisation of prices and quantities) - Property rights need to be created, enforced. (public assets was handled better)	- Not always smooth (e.g. Russia in 1990s vs Czech Republic) - Institutions may not be fully developed.
The socialist market economy (post form of China and Vietnam)	- Some market liberalisation and protection of property rights (and hence profit motive); but - State sector still dominates; - Emphasis on government economic planning; - Regulation often favours state sector;	- Market institutions may be impeded by policy; - Stock market – state owned are dominant

Key economic variables

Economic Output - Real GDP (in same currency and prices)

- Real GDP and the size of the economy (Doesn't account for population differences)
- GDP per capita & living standards (Is an average the best measure of central tendency?)
- Gini coefficient and income distribution (when Income ↑, buy more luxury goods, when income ↓ , buy more 2nd hand or cheaper products)
- GDP growth rates
- Recession – activity ↓ , output ↓ , unemployment↑ , economy shrinking
- Expansion – activity ↑, output ↑ , unemployment ↓ , economy growing

Locating firm in the industry

What inputs:	Land	Labour	Capital	Technology
What's changing:	Land prices, rents	Unemployment rate, wages, skills	Interest rates, regulatory changes around financing	innovation

Prices

Sources of inflation

1. Demand pull inflation - Rapid increase in demand for given quantity of goods, i.e. when demand rises faster than potential output capacity.
2. Cost push inflation - Increase in cost of production, e.g. tax, input price rise
3. Monetary inflation - Link between monetary, output and inflation (M V = P Y)

The costs of inflation:

- Costs to business: input costs, wage demands. Menu costs
- Costs to consumers: higher prices decrease wealth, hurts fixed-income recipients, impact on savers -> credit supply -> long-term growth
- Hyperinflation: impact on cash economy (e.g. Zimbabwe and Venezuela)

Unemployment

Types of unemployment:

Structural	- Skills not demanded in the economy - Retraining possible (but costly)	Learn new skills

unemployment		Government subsidies
Frictional unemployment	- Job-seekers searching for the best job - Firms searching for the best candidate	Costs of waiting and searching
Cyclical unemployment	- Movements in business cycle - Inverse relationship between GDP growth and change in unemployment rate	Unutilized resources and labours Lack of demand
What the stats don't show	- Discouraged jobseekers - Underemployment - Mismatched employment	

High unemployment :	- Low unemployment:
■ Drives wages down • Impact on supply costs, demand ■ Can lead to skill atrophy	■ Drives wages up ■ Draws people into the labour force