Edexcel

A Level

Business studies

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Unit 03-Section 04

Influence on business decisions

14 Cooperate culture

WHAT IS CORPORATE CULTURE?

Every place of work has a slightly different atmosphere. Some are busy, some are friendly, some are

disorganised and others are challenging. This reflects the organisational culture (sometimes also called the organisation, corporate or business culture) of a business. The organisational culture is the values, attitudes, beliefs, meanings and norms (i.e. typical behaviour) that are shared by people and groups within an organisation.

Many different types of culture exist and it might be rare to find two or more firms with identical cultures. Cultures are often described as strong or weak. These are discussed below.

Strong corporate cultures: A strong culture is one that is deeply fixed into the way a business or organisation does things. It is argued that there are certain advantages to a business of establishing a strong corporate culture.

- It provides a sense of identity for employees. They feel part of the business. This may lead workers to be flexible when the company needs to change or is having difficulties.
- Workers identify with other employees. This may help with aspects of the business such as teamwork.
- It increases the commitment of employees to the company. This may prevent problems such as high labour turnover or industrial relations problems.
- It motivates workers in their jobs. This may lead to increased productivity.
- It helps employees understand what is going on around them. This can prevent misunderstanding in operations or instructions passed to them.
- It helps to reinforce the values of the organisation and senior management.
- It acts as a control device for management. This can help when setting company strategy.

Weak corporate cultures: In comparison to a strong culture, a weak culture exists where it is difficult to identify the factors that form the culture or where a wide range of subcultures exist, making the culture difficult to define.

There are certain factors that are likely to lead to a strong or weak culture in a business.

Surface manifestations (i.e. appearances). These include:

- artefacts, such as furniture, clothes or tools- wearing a uniform would be an example
- ceremonials, such as award-giving ceremonies or the singing of the company song at the start of work
- courses, such as induction courses, or ongoing training courses for workers which are used to instil the organisational culture
- heroes of the business, living or dead, such as Bill Gates, Richard Branson or Walt Disney, whose way of working provides a role model within the business
- language used in a business-specific way, such as referring to workers as 'colleagues' or calling workers 'crew members' or associates
- mottoes, which are short statements that never change, expressing the values of an organization

- stories, which tell of some important event that exemplifies the values of the business, such as the history and role of the founders
- myths, which are frequently told stories within a business about itself, but are not necessarily true
- norms, which are the ways in which most workers behave, such as worrying if you turn up for work late, always being prepared to cover for workers who are off sick, or not using the company's telephone to make personal calls
- physical layout of premises, such as open plan offices, 'hot desking, or allocating the size of an office according to a manager's place in the hierarchy
- rituals, which are regular events that reinforce the culture of an organisation, such as always supporting charity or fundraising events ('we are a caring organisation'), having a weekly 'dress down day' ('we are a relaxed organisation'), or holding an annual end-of-year party ('we are a sociable organisation').
- **Core organisational values**. Core values are the most important or central values. They are located below the surface manifestations of organisational culture. They are consciously expressed in words and policies, such as mission statements.

Core organisational values can reflect the actual culture of a business, but, equally, they might not. Workers at the bottom of the hierarchy might have very different values from the ones that senior management want them to possess.

- **Basic assumptions**. Basic assumptions are the unspoken beliefs and ways of working. The workforce may share a general attitude which affects how they behave. These beliefs are 'invisible' and therefore often difficult to see, understand and change. In practice, there may be differences between the three levels of surface manifestations, core organisational values and basic assumptions.

CLASSIFICATION OF COMPANY CULTURES

There are many ways of classifying (i.e. putting into groups) organisational culture. One attempt was made by Charles Handy in Understanding Organisations (1993). He argued that there were four main types of organisational culture.

Power culture: A power culture is one where there is a central source of power responsible for decision making. There are few rules and procedures within the business and these are rejected by the individuals who hold power when it suits them. There is a competitive atmosphere among employees. Among other things, they compete to gain power because this allows them to achieve their own objectives.

Role culture: In a role culture, decisions are made through well-established rules and procedures. Power is associated with a role, such as marketing director or supervisor, rather than with individuals. In contrast to a power culture, influence and control lies with the roles that individuals play rather than with the individuals themselves.

Task culture: In a task culture, power is given to those who can complete tasks. Power therefore lies with those with expertise rather than a particular role, as in a role culture. In a task culture, teamworking is common, with teams made up of the experts needed to get a job done.

Person culture: A person culture is one where there are a number of individuals in the business who have expertise, but who don't necessarily work together particularly closely. The purpose of the organisation is to support those individuals.

EFFECTS OF ORGANISATIONAL CULTURE

Organisational culture affects a business in a wide variety of ways. Three of these ways are motivation, organisational structures and change (for example, new management and mergers and takeovers).

Motivation: Organisational culture affects the motivation of staff. It can have a direct effect because the way in which staff treat each other impacts on motivation.

Organisational structures: Organisational culture can affect the organisational structure of a business. In a person culture the hierarchy is likely to be fairly flat.

New management: A business could change the way that they choose new management. The greater the change needed, the more likely it is that the new management will have to challenge the existing organisational culture. The organisational culture is likely to be part of the problem that needs addressing if the business is to change.

Mergers and takeovers: When two businesses merge or one takes over another, each business is likely to have a different organisational culture. The process of creating a single business out of the two organisations will therefore involve changing organisational culture. In a takeover, one simple way of making that change quickly is for the senior management in the company being taken over to be made redundant.

HOW CORPORATE CULTURE IS FORMED

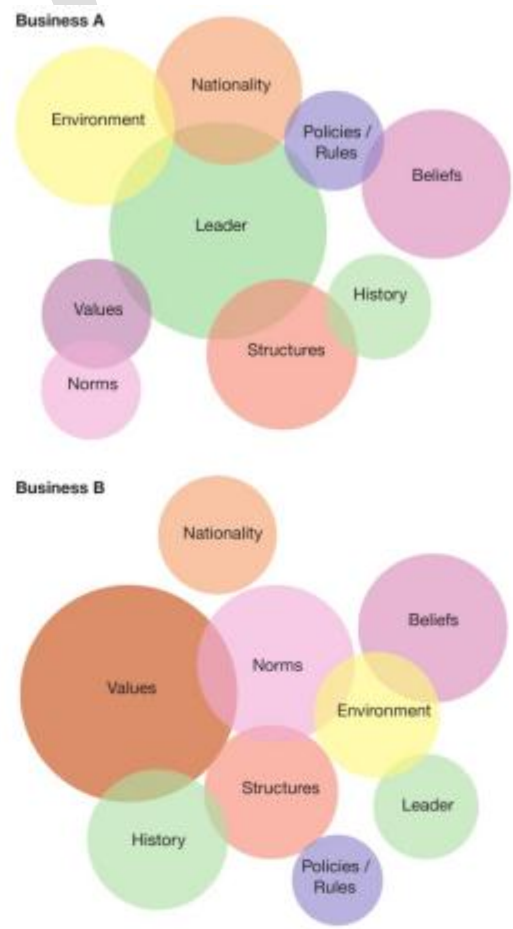
Corporate culture is formed by various factors, including the role of founding members, personalities, and beliefs. A strong leader's attitude can influence the organization's strategy and values. Environmental factors, such as history and traditions, can control values and norms. The type of product also plays a role in creating culture, as the complexity of a product can determine workforce skill and innovation speed. However, each business is unique, with factors having varying levels of influence.

DIFFICULTIES IN CHANGING AN ESTABLISHED CULTURE

Chapter 20 explores the causes and effects of change on a business. From time to time it might be desirable for a business to change its culture to one that is stronger and more productive. A firm's culture can provide it with an advantage over its competitors.

SUBJECT VOCABULARY

bureaucracy the system of rules
cultural dimensions a set of characteristics that form the international context of business culture
infrastructure the basic physical and organisational structures and facilities (e.g. buildings, roads, power supplies) needed for the operation of a society or enterprise
multinational a business organisation operating in several countries
organisational culture (also organisation, corporate or business culture) the values, attitudes, beliefs, meanings and norms that are shared by people and groups within an organisation
strong culture a culture where the values, beliefs and ways of working are deeply fixed within the business and its employees
labour turnover the rate at which employees leave a business
weak culture a culture where workers are not fully aligned to the values, beliefs and ways of working of an organisation



▲ Figure 2 Factors that affect the culture of an organisation

15. Stakeholder models and versus shareholder model

INTERNAL AND EXTERNAL STAKEHOLDERS

A stakeholder is a person, group or organisation who can affect or be affected by the actions, objectives and policies of a business. Stakeholders can be directors, employees, owners, suppliers, unions and customers. The interest each stakeholder has will vary according to the nature of their stake; for example, whether they are inside or outside the business.

INTERNAL STAKEHOLDERS

Some groups of people inside the business have a direct interest in its survival and well-being. These may be referred to as internal stakeholders.

Business owners: A business is owned by its owners, who are stakeholders who may gain or lose financially from its performance. In larger companies, shareholders may be internal or external. Internal shareholders may include directors, managers, and employees, while external shareholders may be individuals, financial institutions, or other companies. Most large companies are owned by financial institutions, but some senior managers and board members may own shares due to **remuneration**. Employees may also own a small number of shares.

Employees: Employees are internal stakeholders because they work for businesses. Employees depend on businesses for their livelihood (i.e. their means of earning money in order to live). Most employees have no other sources of income and rely on wages to live on. Some employees are represented at work by trade unions. If this is the case, then trade unions also become stakeholders. The needs of employees are often in conflict with those of other stakeholders, such as owners and managers. This is discussed later in the chapter.

Managers and directors: In small businesses, managerial tasks, such as organising, decision making. planning and control, are carried out by the entrepreneur themselves. However, in large businesses, the key decisions relating to company policy and strategy are made by the board of directors. It is then the responsibility of managers to ensure that the policies and strategies are implemented. Large businesses employ specialists in managerial positions.

EXTERNAL STAKEHOLDERS

A range of groups outside a business may have an interest in its activities. Such groups are called external stakeholders.

Shareholders: Most shareholders in large companies are not involved in the day-to-day running of the business. They are investors and only have a financial interest. External shareholders might be individuals or have more control over the direction of a company than its shareholders. However, if they are not happy with the way the company is being run, or the return they get is inadequate, external shareholders can sell their shares and invest their money elsewhere.

Customers: Customers buy the goods and services that businesses sell. Through their purchases, they provide the revenue and profit that businesses need to survive. However, customers need businesses because they provide the goods and services they require and want. Most customers are consumers (individuals and families) who use or 'consume' products. However, some may be other businesses. For example, JCB manufactures a range of construction machinery that it sells to other businesses.

Creditors: Creditors lend money to a business. They may be banks, but could also be individuals, such as family members, or private investors, such as venture capitalists. Clearly these stakeholders have a financial interest in a business and will be keen for it to do well. Creditors will expect their interest payments to be met and their money returned at the end of the loan period. They will also want clear communication links with the business.

Suppliers: Businesses that provide raw materials, components, commercial services and utilities to other businesses are called suppliers. Relations between businesses and their suppliers need to be good because they rely on each other.

Pressure groups: Pressure groups such as trade unions or environmental groups like Greenpeace may try to influence business activities. They may do this if specific activities threaten the interests of that group. Pressure groups can exert influence by finding allies in the media, by organising protest marches, and by running marketing campaigns to express their concerns.

The local community: Most businesses are likely to have an impact on the local community.

• Positive impact. A business may employ local people and if the business does well the community may benefit. There may be more jobs, more overtime and perhaps higher pay. This will then have an effect in the community. For example, shops, restaurants and cinemas may benefit from extra spending.

• Negative impact. A study in Nigeria found high pollution levels in swamps, mangroves, and creeks after oil spills, endangering the community. The study suggests health screenings are needed due to the dangers of toxins. Shell denied the author permission to publish the results, highlighting the community's concerns about the impact of businesses that employ locals.

The government: Governments support businesses by providing employment, wealth generation, and tax revenue. These taxes fund government expenditure, welfare benefits, healthcare, and schools. Failure results in lost tax revenue and unemployed benefits. Laws protect vulnerable individuals from exploitation by powerful businesses.

The environment: Business activity can have an impact on the environment.

STAKEHOLDER OBJECTIVES

Many stakeholders have common objectives. For example, most stakeholders will want a business to survive and be successful. However, each group of stakeholders is likely to have some of their own specific objectives.

Shareholders: The majority of shareholders will want the business to maximise shareholder value. This is a measure of company performance that takes into account the size of dividends and the share price. Over time, shareholders want this to grow.

Employee objectives: Employees desire a profitable business, leading to higher wages, benefits, and job security. They expect good pay, comfortable conditions, responsibility, fair treatment, promotion opportunities, safety, equal opportunities, and financial rewards, all aimed at maximizing their welfare.

Managerial objectives: Managers and directors are likely to have similar needs to those of employees. Many managers (and employees) have part of their remuneration linked to the performance of the business and will therefore want the business to perform well.

Customer objectives: Customers want good-quality products at a fair price. They also want clear and accurate information about products and high-quality customer service. They may also want choice, innovative products and flexibility. For some products, such as machinery, electrical goods and children's products, safety is an important issue. If these needs are not met, customers will spend their money elsewhere.

Supplier objectives: Suppliers want to be treated fairly by businesses. They would prefer to have long- term contracts and regular orders. They will also want a fair price for their goods or services and to be paid in reasonable time. Recently, it was suggested in the media that some businesses might 'bully' suppliers. Some retail businesses might put pressure on suppliers and demand price cuts because of falls in commodity prices. They might threaten to withdraw orders if suppliers refuse to comply.

Government objectives: Governments will want businesses to grow and make more profit. They will also want them to comply with legislation and not exploit groups that are at risk.

Environmental objectives: Environmental groups will want businesses to avoid having any negative impact on the environment. For example, they will demand that business activity does not damage wildlife and its habitats, pollute the atmosphere or waste resources.

Local community objectives: Local communities will want businesses to contribute to the success of the community and be good corporate citizens. Communities would also want businesses to create employment and, depending on their size, nature of business and abilities, build links with schools and charities, maintain open communications, and avoid or minimise congestion and pollution in the area.

STAKEHOLDER INFLUENCES - STAKEHOLDER MODEL

Some corporations take into account the objectives of a wider group of stakeholders in addition to shareholders when making business decisions. According to the Clarkson Principles (www.cauxroundtable.org), this means that corporations should:

- recognise the interests of other stakeholders and take their views into account when running the business and making decisions
- maintain open communication channels with other stakeholders and consult with them before making radical changes
- recognise the mutual dependence that exists between different stakeholders, ensuring that the benefits of enterprise are distributed fairly after considering the level of effort and risk each group contributes
- minimise or remove the negative effects of business activity. If such effects cannot be avoided, then those affected should be adequately compensated. Some businesses might claim to have adopted this stakeholder model. Part of the reason for this is that corporations are coming under pressure from stakeholders, the media and the wider public to be more socially responsible.

STAKEHOLDER INFLUENCES - SHAREHOLDER MODEL

Traditionally, corporations prioritize growth or profit, with shareholders' objectives influencing decision-making. Directors and managers serve shareholders' interests, maximizing profits for owners. Some businesses still adopt this model, aiming to maximize shareholder returns by raising dividends and share prices.

THE POTENTIAL FOR CONFLICT BETWEEN SHAREHOLDERS AND STAKEHOLDERS

Problems are likely to arise between shareholders and other stakeholders when their objectives are in direct conflict. Some examples of this conflict are outlined below.

Shareholders and employees: Meeting the objectives of employees in terms of higher wages, better conditions, more benefits and bonuses, providing training and improving employee welfare comes at a cost. If the needs of employees are met in full there is likely to be a negative impact on profit and dividends. Conflict will arise if shareholders insist that the rewards to employees should not come at the expense of dividends. Employees may try to put pressure on the business to ensure their objectives are met by threatening industrial action.

Shareholders and customers: Conflict between shareholders and customers is most likely to occur if a business charges prices that are too high. Higher prices will help to increase shareholder returns but reduce the buying power of customers. Customers might also enter into conflict with businesses if levels of customer service are poor or if businesses fail to invest in research and development and bring out new products.

Shareholders and directors and managers: Senior managers and directors may face conflict if they prioritize their own objectives, leading to a 'divorce of ownership and control'. This can occur when shareholders lose control over the business, and the balance between paying dividends and retaining profit for investment is a common conflict.

Shareholders and the environment: In an effort to maximise profit, a business might forget its responsibilities towards the environment. One very serious concern is the impact some business activity is having on the environment, such as global warming.

Shareholders and the government: Conflict between shareholders and the government is likely if businesses break the law. However, the judicial system should help to solve such conflicts. Recently there has been growing uneasiness between governments in some countries and large corporations.

SUBJECT VOCABULARY

dividend a sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves)
external stakeholders groups outside a business with an interest in its activities
fund(s) a sum of money saved or made available for a particular purpose
internal stakeholders groups inside a business with an interest in its activities
remuneration the reward for work in the form of pay, salary or wages, including allowances and benefits, such as company cars, health insurance, pension, bonuses and non-cash incentives
shareholder value a measure of company performance that combines the size of dividends with the share price

16. Business ethics

ETHICS

Business ethics involves ethical decision-making, focusing on strategic levels rather than individual employee decisions. Laws can affect some **ethical decisions**, such as gender discrimination or factory construction without planning permission. However, many ethical decisions can be made without legal assistance, such as allowing sick workers to take time off work or avoiding poor work conditions. Businesses should have a code of conduct for employees to follow.

ETHICS OF STRATEGIC DECISIONS

Strategic decisions are those that affect how a business operates in the long term. All businesses have to make ethical decisions as part of their corporate strategy and these are usually the responsibility of senior management. These decisions then affect the direction of the business, with medium-term tactical decisions usually the responsibility of middle managers.

The environment: In many countries, the law limits the amount of pollution or environmental damage a business can do. However, businesses must decide whether to adopt stricter measures to protect the environment.

Animal rights: Some companies, such as pharmaceutical companies or cosmetics manufacturers, might use animals to test products. Animal rights groups argue this is unethical. Other companies, such as food manufacturers or oil businesses, can destroy habitats and endanger animals.

Workers in developing countries: A number of companies have been criticised for exploiting workers in developing countries. Companies manufacture in countries with emerging economies because production costs are much lower. However, there is an ethical question about the extent to which low costs should be at the expense of workers.

Corruption: In some industries, bribes (i.e. money paid to persuade somebody to do what you want them to) might be used to persuade customers to sign contracts. It is argued this takes place in certain emerging economies, where civil servants or government ministers want money from big business deals. The ethical question is whether it is right to use bribes even if a business knows that its competitors do.

New technologies: Most new products, such as mobile phones or a new chocolate bar, do not cause ethical problems. But some technological developments can be controversial.

Product availability: If a person cannot afford an expensive car or some other luxury goods, most would not see this as an ethical issue. But if someone is seriously ill and cannot afford drugs for treatment because pharmaceutical businesses charge such a high price, many would argue that this is an ethical issue.

Trading issues: Some countries have been condemned (i.e. judged as wrong or very bad) internationally for the policies followed by their governments. They may even have had sanctions or trade embargoes placed upon them. Companies must decide whether to trade with or invest in these countries.

TRADE-OFFS BETWEEN PROFIT AND ETHICS

A conflict can exist between ethical objectives and profitability and a trade-off occurs when the selection of one choice results in the loss of another. This applies at all levels, from individuals through to the largest corporations and even governments. If I choose to buy a new car, the trade-off might be that I cannot have a holiday.

For businesses, acting ethically when not required to do so by the law can have a negative impact on profit in a number of ways. The result can be a trade-off.

• It can raise costs. For example, paying higher wages than is necessary to overseas workers increases costs. Having to find other ways than animal experiments to test a new drug might add to costs. Adopting an ethical code of practice can raise costs. Staff have to be made aware of the code and trained to implement it.

• It can reduce revenues. A business might lose a contract if it refuses to give a bribe. Selling medicines to emerging economies at low prices might increase sales, but total revenue is likely to be lower. Refusing to develop GM crops might mean a competitor getting into the market first and becoming the market leader.

However, adopting an ethical stance can produce benefits.

• Some companies have used their ethical stance for marketing purposes.

• Some businesses promote their positive ethical beliefs when marketing their products. Businesses face problems if they behave unethically and they face serious penalties for breaking the law.

CODES OF PRACTICE

In recent years, some large businesses have adopted ethical codes of practice. These explain how employees in the business should respond in situations where they encounter ethical issues. Ethical codes will differ from one business and one industry to another. However, they may contain statements about:

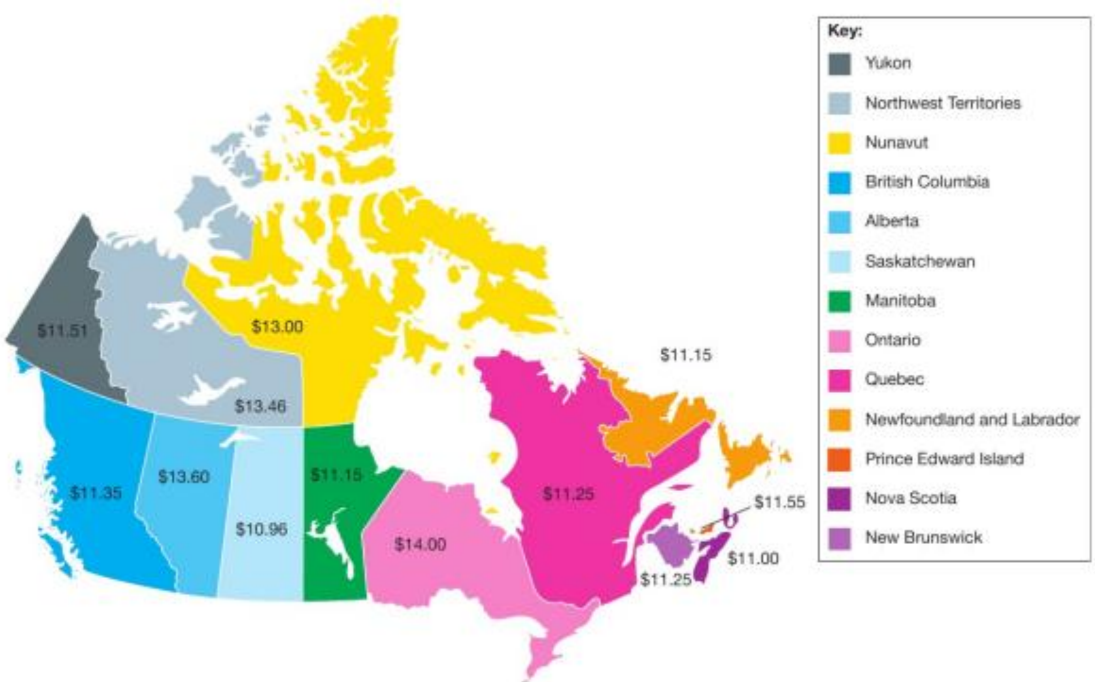
- environmental responsibility
- dealing with customers and suppliers in a fair and honest manner
- competing fairly and not engaging in practices such as collusion or destroyer pricing
- the workforce and responding fairly to their needs.

PAY AND REWARDS

An important issue in the area of business ethics relates to pay and rewards. Remuneration is the reward for work, such as pay, wages or salary. Businesses use pay and rewards for different purposes:

- to attract employees with the right skills, experience and knowledge. Jobs that are less skilled may have a high number of available workers, which means pay can be low. Jobs that need rare skills, for example with top Premier League footballers, pay rates need to be very high to attract the best.
- to reward and motivate existing staff. The ultimate aim of businesses is to make profit. Rather than pay the lowest possible rates of pay, to keep costs down and profit margins high, businesses need to pay their staff enough money so that they to work to the best of their ability. The link between pay and motivation is discussed in detail in Student Book 1, Chapter 17.
- maximise productivity levels. Pay is an important motivator and highly motivated staff are more productive.

Generally, it is the role of individual businesses to decide on rates of pay. An exception to this relates to low pay. In some countries, such as the USA, Australia and India, a **national minimum wage exists**. In others, such as Canada, there are legal minimum wages, but they may vary between different regions. Figure 1 shows the minimum wage rates in different Canadian provinces. The differences might be explained by variations in the cost of living and the different labour market conditions in each province.



▲ Figure 1 Minimum hourly wage rates in Canadian provinces (CAN$) as of April 2018

Effectively, the government is making up the difference between the wages paid by a business and the amount needed for a person to live on. In some countries, groups have argued that workers should be paid a **living wage**. This would be set higher than the national minimum wage and covers the basic cost of living.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate social responsibility (CSR) is a self-regulation approach that involves businesses considering the interests of all stakeholders. Some large businesses have audited their activities, which can be made public in a CSR report. Auditing involves checking evidence against established standards, and auditors determine the truth and fairness of the presented evidence. Social and environmental audits are voluntary, with companies choosing their standards and auditors. Measures used vary by business, such as oil spills or air pollution levels.

Employment indicators: How well does the business treat its staff? This might include indicators about pensions, healthcare benefits, union representation, training and education, the number of accidents involving staff, payment of minimum wages, equal opportunities and the number of women in higher management or director positions.

Human rights indicators: How well does the company perform on human rights issues? For example: Does the company have works councils?

• Do its suppliers use child labour?

• Does it operate in, buy supplies from or sell products to countries that have a poor human rights record?

• Does the company discriminate on grounds of race, gender or age when recruiting or promoting staff?

The communities in which the business operates: What impact does the business have on the life of the communities in which it operates? For example, how much does it give to charities? How much is spent on local schools, hospitals and housing?

Business integrity and ethics: How ethical is the business in its activities? For example, has the company been involved in any cases of trading that break legislation? Does the company make political contributions and to whom?

Product responsibility: What is the social impact of the products sold by the business?

The environment: These indicators can form a separate environmental audit. Some businesses may only produce an environmental audit and not include any of the other social indicators described above. Indicators might include:

● the amount of energy or other raw materials used by the business, such as water or pesticides

● how much waste or effluent was produced

● the levels of greenhouse gases or ozone-depleting emissions

● what percentage of materials used were recycled

● the company's impact on biodiversity

● what impact it had on protected and sensitive areas

● how many times it was fined during the period for failure to comply with environmental regulations, and the total level of fines.

SUBJECT VOCABULARY

audit an official inspection of an organisation's accounts, typically by an independent body

bribe money paid to persuade somebody to do what you want them to

business ethics the moral principles that guide the way in which a business behaves

Corporate Social Responsibility (CSR) a business assessing and taking responsibility for its effects on the environment and its impact on social welfare. It involves the idea that businesses are responsible for more than their shareholders

data harvesting the process of extracting information from websites automatically and using it for other purposes

emerging economy used to describe a developing country, in which investment would be expected to achieve higher returns but would be accompanied by greater risk

ethical codes of practice statements about how employees in a business should behave in particular circumstances where they experience ethical issues

ethical decision a decision which considers what is morally right or wrong

ethics moral rules or principles of behaviour that should guide members of a profession or organisation and make them deal honestly and fairly with each other and with their stakeholders

living wage an hourly rate of pay based on the basic cost of living, set independently of government and updated annually

millennials people reaching adulthood in the early 21st century (there are no specific dates)

national minimum wage the minimum pay per hour all workers are entitled to by law

sanctions (or trade embargoes) sanctions are restrictions (i.e. limits) that are used in trade or investment with the aim of influencing a policy change in another country. Trade embargoes can be included in sanctions, where commercial shipments are banned in and out of a particular country, or where an embargo is placed on a particular product

sustainable and ethical investment where investments are made in companies with a strong ethical stance