

Business and Society

FULL NOTES

Semester 1, 2022

University of Otago

BSNS111

Lectures 1, 2 & 3: An Introduction

Mercantilism: promoted governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers.

The emergence of the bourgeoisie:

- Aristocracy lost more and more power towards the end of 17th century
- Citizens began to amass property and production facilities during the 18th century
- The rise of Bourgeoisie marks the turn towards capitalism
- Industrialisation promoted the rise of capitalism

Industrialisation and Capitalism:

Mass production of textiles

Affected:

- Income
- Daily life
- Sustained population growth
- Rise of the Working Class
- Rise of the Middle Class (Bourgeois)
- Targeted use and increase of capital

Economic systems and forms of governance:

- While nomadism and feudalism define forms of (non) governance, mercantilism and capitalism are economic systems
- With Adam Smith (late 18th century), capitalism and economics began to compete with and influence the system of governance.
- Other systems emerge (in 20th century): democracy, socialism, communism, social democracy

For capitalism to function, it needs:

- Private ownership of the means of production
- A property rights system legitimising private property
- A price system (money for the valuation of goods, production and distribution)

The previous history of marketing and social development produced behaviour and knowledge patterns shaping beliefs and ideology (including through the use of propaganda by church and government).

How does capitalism thrive?

- Capitalist production creates 'surplus value' (value created by workers in excess of their own labor cost)
- Max profit is set by minimum wages necessary to sustain labor
- Profit = what capitalists keep less wages and costs - usually reinvested in more capital to create more profit
- Accumulation of capital has no ceiling: capitalism exploits resources without any mechanism that sets boundaries

Capitalists need markets: free markets - prices derived from supply and demand which seek to exist without government intervention

Political systems and markets:

Companies exist separately from people - there is a profit motive. Competition makes individual pursuit of self-interest socially beneficial. Capitalism requires private ownership of the major means of production.

The “invisible hand” is an incentive for businesses to do the right thing so they don’t lose customers or business.

A complication of that the “rules of the game” are crafted in a political system where some businesses expend huge sums of money to ensure that the rules favour them.

These rules of the game also go beyond those enforced by governments. Economies function within set of societal norms - how much execs/employees should be paid (ratio of how much more), gender roles, community obligations, tax laws, behaviour towards customers, and how this impacts on overall economic success. *Lending laws: banks should be able to make money vs loan sharks.* A company who goes outside of the rules of the game, if it isn’t loved by society, they will lose legitimacy. People boycott, and will cause a loss in income. People might try and make legislations against your behaviour.

Anglo-American corporate governance:

- Shareholders (ownership)
- Board of Directors
- Management (control)
- Employees

Corporate Governance: refers to the method by which a firm is being governed, directed, administered, or controlled and to the goals for which it is being governed.

The Anglo-American model of corporate governance is one of ‘shareholder primacy’

Shareholders: ‘own’ and are the principals’ with authority to manage business, and want the business to maximise economic returns

Agency theory (1970s) promotes the idea that shareholders own and the BoD and consequently managers acts in their interests as their ‘agents’. They focus on returning profit which is an unspoken assumption in contemporary business. There are sometimes agency problems where the BoD or managers operate in own self-interest.

Anthropocentric behaviour - prioritising economic activities

- Externalises social and environmental costs
- Exploitation and inequality
- Domination of things over people
- Profit, over people and planet

Hence, the Mickey Mouse model of the Triple Bottom Line of Business with the subset of environment and society.

Lecture 8: Aotearoa New Zealand

Agency Theory - the BoD act as agents for the principals/shareholders, but the agents might act in their own interest rather than their principals. They should be maximising profit, and agency theory supports this and assumes shareholders are economically driven.

We ask if this is what business is about and how it should operate in society.

6. Flexible and durable

Deregulation

- The theory
 - Removing or reducing state regulation
 - Increase efficiency and productivity, enhance competitiveness and lower prices
- The agenda
 - Rogernomics
 - Extensive reform *all patrols on prices, credits, wages were lifted.*
- The practice?
 - Leaky buildings, collapse of finance companies

Identify the elements in New Zealand's regulatory system including core components and various checks and constraints.

1. A policy problem is identified and alternative policy responses evaluated by central government agencies
2. Cabinet considers proposed regulation (Cabinet papers and Regulatory Impact Statements)
3. Regulation processes through the Parliamentary process (for statutes) or the Executive Council (for order in Council)
4. Regulatory agencies implement regulations with varying degrees of policy discretion (administer, monitor and enforce)
5. Courts settle disputes, interpret law and undertake judicial review
6. Central government agencies review the performance of the regulatory regime and agencies.

Checks and balances:

1. Parliamentary time
2. Select committees
3. MMP
4. Treaty of Waitangi
5. International agreements
6. Resources and capability
7. The rule of law and the courts
8. Regulatory review

Lecture 12: Influence

Describe the ways in which business influence government including the use of lobbying and political spending.

Control of food intake:

Link: causal relationship between two variables.

Link polarity: the '-' means that if the cause increases, the effect decreases below what it would otherwise have been.

Link polarity: the '+' means that if the cause increases, the effect increases above what it would otherwise have been.

Loop identifier: indicates whether the loop is balancing or reinforcing.

Reinforcing or positive feedback loops

- Exponential growth (shares)
- Exponential decline
- Goal seeking

Balancing or negative feedback loops:

- Goal seeking
- Create stability
- Resist change
- Goal built into it
- Air con may blow more hot or cold air according to the temp
- LEAN production - having just enough inventory on hand to create these loops and track their inventory

System archetypes

- Fixes that fail - building prisons and roads have unintended consequences such as congestion on the road, inexperienced criminals learning to be better criminals. It causes more harm than good because it doesn't address the core problem.

Tragedy of the commons

- Sustainability and resource management
- Individual behavior from A and B are fishing boats and
- leads to undesirable outcomes

- Economic power is shifting away from national governments and towards supranational organizations.
- The gap between the rich and the poor has widened and the benefits of globalization have not been shared equally. *High network families - it is difficult to tax and redistribute. Globalization may lessen the power of the middle class - if there is no middle class then there is no consumption.*
- National governments and citizens may have less influence over the social contract in their country.
 - International investors and supranational organizations may have too much influence
- Supporters suggest that the separate governmental actions brought limited economic improvement in many countries. *MNCs have driven up the standard of living - some argue they have done a better job at creating economic prosperity than any government.*

Reflection:

- Has globalization changed
 - How we manage society
 - How people are treated in our society (or in other societies)
- What can we, as citizens, do to influence or motivate change?

Lecture 18: Ethics

Ethics management program

- If weak; Most employees observe ethical misconduct
- If strong; 40-50% of employees observe ethical misconduct

This is still high, so company's will deploy a variety of ethics managements tools. Fortune 500 firms use the following to reduce ethical misconduct: written standards, discipline for ethics misconduct, ethics training, anonymous whistleblowing, ethics advising, and ethical employee performance and evaluations.

Training programs

There is so much focus on ethical management because there is poor ethical behaviors, resulting in devastating effects for different stakeholders.

Enron Scandal -

- High company profile worth \$70b
- Enron executives had been exploiting accounting loopholes to hide billions of dollars of debt
- They were performing in such an unethical way that recordings were made that led to the major increase in energy prices (was unethical).
- Accounting firm found guilty of destruction of justice

- Recognizes officers have more influence and control over the business than its workers.

The role of officers

Officers include: anyone with authority or power.

- Directors
- Partners in a partnership
- Board members
- Any person who holds a position comparable to a director in a body corporate or an unincorporate body, and
- Any person who exercises significant influence over the management of the business or undertaking (e.g. the Chief Executive).

What about the 'owner'?

With a SME, could an owner be held responsible?

- It's your responsibility as a director, owner or manager to ensure your people are trained to do their job safely. *You have a large influence on what goes on, how work gets done (whether or not this is done safely), and if you choose to change this.*
- In general - shareholders are not officers and are, therefore, not responsible. *They do not have any influence to affect any of the day to day activities.*

Physical health - what about mental health?

Whilst focus is typically given to reducing the risk of physical harm, HSWA importantly defines health as being both physical and mental.

- In addition to cuts in a working environment, pressure and stress at work could also fall under this legislation
- The way in which work can adversely affect your wellbeing
 - Do you have ergonomic risks?
 - Have you even been trained properly to carry out tasks?
 - There are a lot of other challenges around wellbeing at work - the pressure to complete work, capitalist struggles to do better faster
 - This may lead to people making poor judgements and poor mistakes.

Employee rights.

- If an employee is using illicit drugs, then their judgement is impaired which affects the actions they take. However, these actions can affect other employees on site also.
- Given the changing climate, should employment laws be broken?
 - We should not ignore the law in terms of how we treat our employees

A changing social contract

Old social contract	New social contract
Job security	Few tenure arrangements
Life careers with one employer	Few life careers; changes common

- You can sometimes manage this, but it changes the nature of your work
- It does not give you financial economy as you cannot rely on the fact that there will be more 'gigs' or more work.

These world's are shaped by the ways people and organizations respond to the forces of collectivism and individualism, on one axis, and integration and fragmentation on the other.

Maori businesses will make decisions based on different things such as:

- The importance of their people (iwi) or community (tribe)
- Protecting and managing natural resources

Thus, they will have less of a focus on maximizing profit compared to a business following the Anglo-American model of governance.