

# Corporations and Society

Introduction to Core Concepts

Second Annual Ivey HBA Corporations and  
Society Attitudes Survey

Professor Guy Holburn

September 3, 2013

# Is society better off if business maximizes shareholder value?

Answer	HBA (2013)
1 (Strongly Disagree)	3%
2	10%
3	13%
4	21%
5	33%
6	14%
7 (Strongly Agree)	6%
Mean	4.4
Number of Responses	231

Hand-drawn blue brackets group the following rows in the table:

- Answers 1, 2, and 3 are grouped together, with a red "26%" label to the right.
- Answers 5, 6, and 7 are grouped together, with a red "53%" label to the right.

# Is society better off if business maximizes shareholder value?

## If markets function 'well' (Smith, Ricardo, Friedman)

- ✓ Provision of goods and services that consumers value
- ✓ Benefits of competition
  - ✓ Efficiency gains, lower prices
  - ✓ Innovation
- ✓ Jobs, employment income
- ✓ Tax revenue to gov't

## If markets function 'poorly'

- x Negative externalities
  - x E.g. pollution
- x Monopoly power
- x Asymmetric information
- x Income distribution and inequality

# Society has several mechanisms for balancing tensions between corporate and societal interests

## 1. Government

- Regulation of private sector activities
- Public ownership of industry
- Redistribution of resources/wealth through taxation and social welfare spending

## 2. NGOs, social activist organizations

- “Private politics” campaigns, boycotts

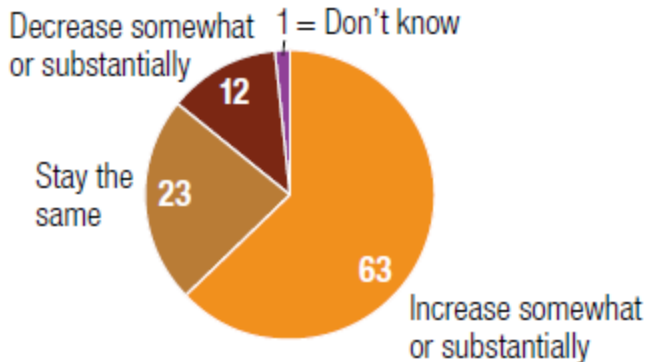
*As a manager, you need to understand when, why and how external forces affect your company*

# Government has a major impact on the ability of corporations to create economic value

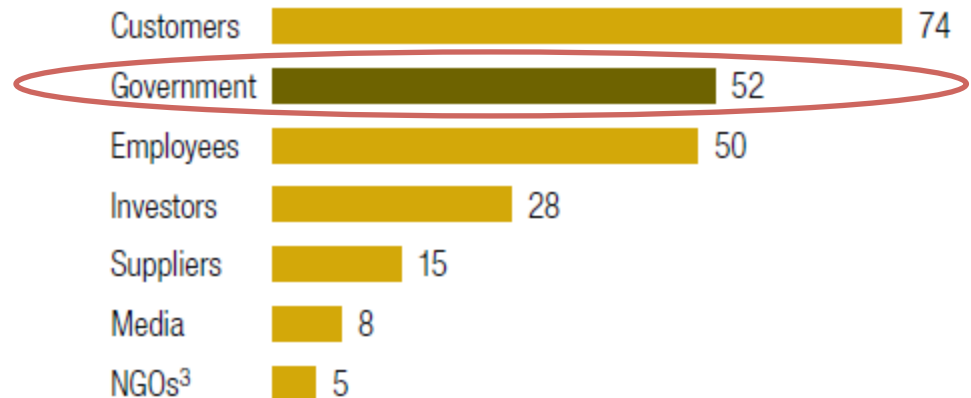
## Role of government

% of respondents, n = 1,167

*How do you expect the government's involvement in your industry to change in the next 3–5 years?<sup>1</sup>*



*Which stakeholders do you expect will have the greatest effect on your company's economic value in the next 3–5 years?<sup>2</sup>*



Source: McKinsey Global Survey, How Business Interacts with Government, 2010

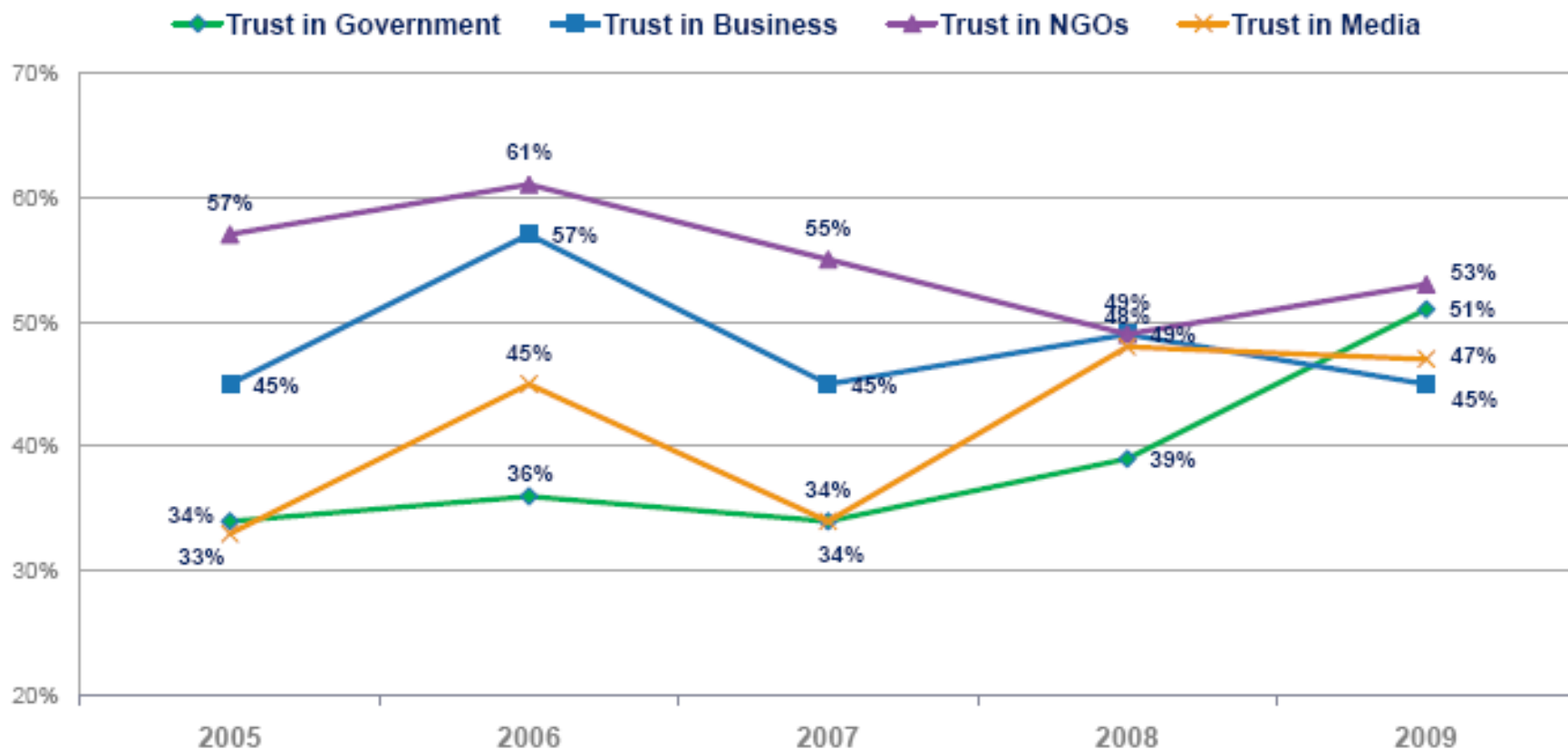
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Trust in institutions

# Trust of Institutions in Canada

Trust in government and media has increased over two years while trust in business and NGOs has remained steady during the same period



A10. [Business in general TRACKING] I am going to read you a list of institutions. For each one, please tell me how much you TRUST that institution to do what is right. Please use a nine-point scale where one means that you "DO NOT TRUST THEM AT ALL" and nine means that you "TRUST THEM A GREAT DEAL". (Top 4 Box) Informed publics 35-64 in Canada



HBA's rate NGOs as the most trustworthy institution, similar to the general public. Trust in Business is relatively low.

Institution	HBA (2013)	HBA (2012)
NGOs	<b>6.10</b>	<b>6.23 (1<sup>st</sup>)</b>
Government	5.21	5.60 (2 <sup>nd</sup> )
Business	4.94	4.96 (3 <sup>rd</sup> )
Media	3.72	3.61 (4 <sup>th</sup> )

*Question:* indicate how much you trust each institution to do what is right using a 9 point scale where 9 means you “trust them a great deal”, 1 means you “do not trust them at all”

# Role of government in business

# Calls for greater protection and responsible behavior

THINKS THE MOST IMPORTANT ROLE THAT GOVERNMENT SHOULD PLAY IN BUSINESS IS:

GLOBAL

CANADA



**Business can address on its own**

**Perceived drivers of irresponsible behavior:**

- Poor management (Global - 29%, Canada - 19%)
- Unethical business practices (Global - 28%, Canada - 27%)
- Shortcuts that lead to poor quality (Global - 21%, Canada - 26%)

Q127. Which of the following items do you think makes people in a company most likely to engage in risky and irresponsible behavior that could damage a company? Q131. Which of the following is the most important role that government should play in business? Informed Publics ages 25-64 in 25 country global total and Canada

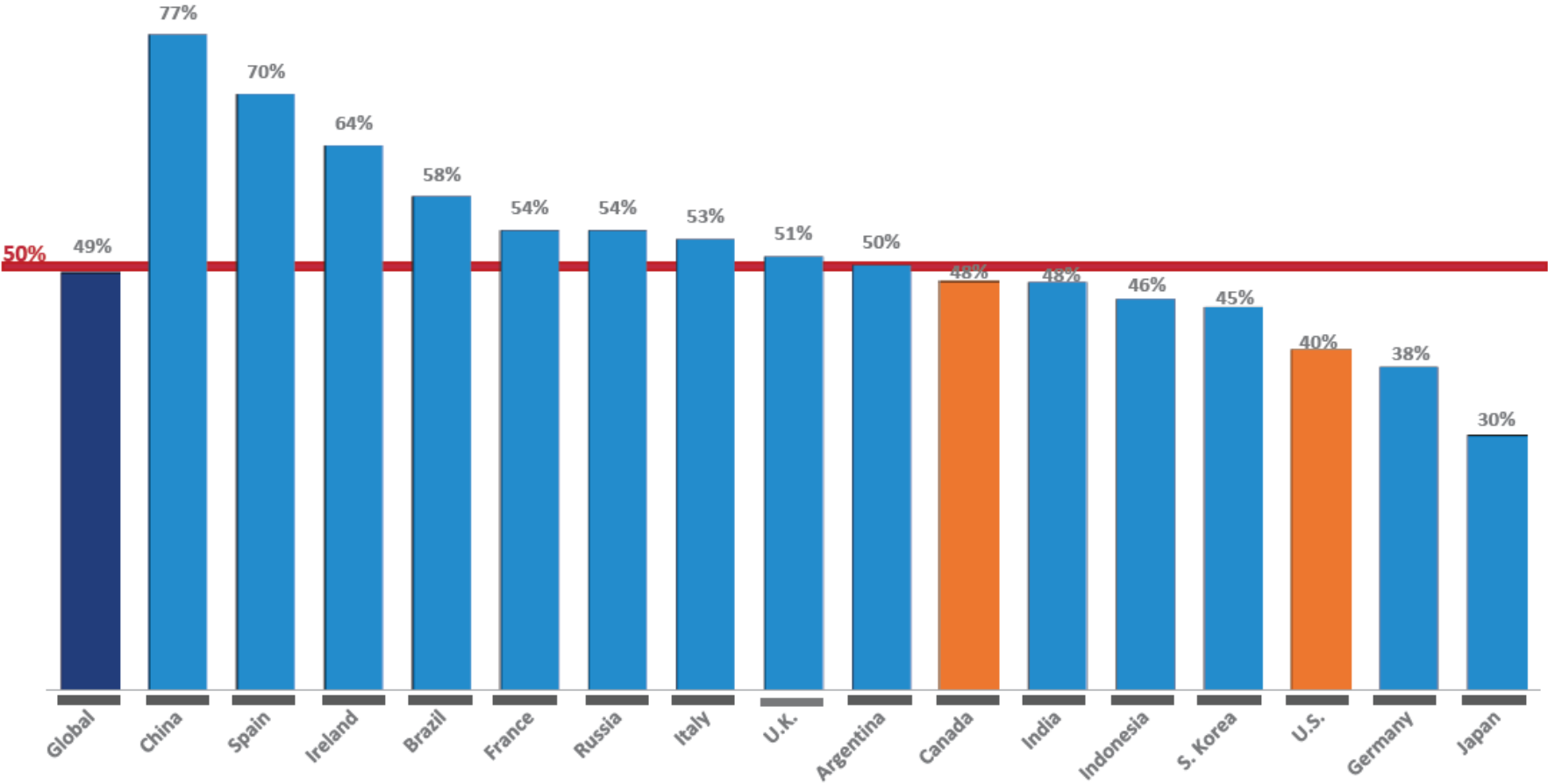
Approx a third of HBAs believe the central role of gov't in business is to protect consumers from irresponsible business practices

Most important role that government should play in business	HBA (2013)	HBA (2012)
Protect consumers from irresponsible business practices	<b>34%</b>	27%
Regulate business activities to ensure companies are behaving responsibly	28%	<b>29%</b>
Build infrastructure that promotes and facilitates business opportunities	23%	23%
Work to ensure free market access and open competition within industries	11%	16%
Give or loan money to business when it experiences financial crisis	1%	1%
Government should not play a role in business	3%	3%

# Government regulation of business

# Despite lack of trust in government, calls for increased regulations

% WHO BELIEVE GOVERNMENT DOES NOT REGULATE BUSINESS ENOUGH



Q130. When it comes to government regulation of business, do you think that your government regulates business too much, not enough or the right amount? (% who selected 'not enough') Informed Publics ages 25-64 in 25 country global total and across 16 countries

HBAAs generally think that government regulates business the right amount

Amount of government regulation	HBA (2013)	HBA (2012)
1 (Too Much)	3%	5%
2	7%	12%
3	24%	22%
4 (Right Amount)	<b>32%</b>	<b>29%</b>
5	26%	23%
6	8%	7%
7 (Not Enough)	1%	1%
<b>Mean</b>	<b>4.0</b>	<b>3.67</b>

# Private versus government ownership of business



# HBA's generally favour greater private ownership of business - more so than Canadians, but similar to Americans

What is the right balance between private and government ownership of business?	HBA (2013)	HBA (2012)	Canada Public	U.S. Public
1 (Private ownership of business and industry should be increased)	11%	14%	11%	19%
2	10%	19%	9%	9%
3	<b>26%</b>	<b>26%</b>	18%	16%
4	19%	16%	13%	16%
5	22%	16%	<b>20%</b>	<b>23%</b>
6	5%	4%	9%	8%
7	5%	3%	7%	3%
8	2%	3%	6%	1%
9	0%	0%	2%	1%
10 (Government ownership of business and industry should be increased)	0%	0%	2%	1%
<b>Mean</b>	<b>3.75</b>	<b>3.38</b>	<b>4.4</b>	<b>3.7</b>

Attitudes towards competition

HBA's typically favour competition, and significantly more so than the public in Canada and the U.S.

Is competition good or harmful?	HBA (2013)	HBA (2012)	Canada Public	U.S. Public
1 (Competition is good. It stimulates people to work hard and develop new ideas)	26%	<b>32%</b>	15%	<b>21%</b>
2	24%	30%	16%	13%
3	<b>29%</b>	22%	<b>19%</b>	19%
4	13%	11%	16%	15%
5	4%	5%	15%	16%
6	2%	1%	6%	5%
7	1%	1%	5%	3%
8	0%	0%	4%	2%
9	0%	0%	2%	1%
10 (Competition is harmful. It brings out the worst in people)	0%	0%	1%	1%
<b>Mean</b>	<b>2.6</b>	<b>2.32</b>	<b>3.8</b>	<b>3.5</b>

# Attitudes towards business and the natural environment

A greater fraction of HBAs than of the public at large assign a greater priority to economic growth than environmental protection

Answer choice	HBA (2013)	HBA (2012)	Canada Public	U.S. Public	China Public
<i>Either:</i> Economic growth and creating jobs should be the top priority, even if the environment suffers to some extent	37%	44%	22%	44%	23%
<i>Or:</i> Protecting the environment should be given priority, even if it causes slower economic growth and some loss of jobs.	63%	56%	68%	52%	50%

# Attitudes towards social responsibility of government

HBA's generally think that people should take more responsibility in providing for themselves, similar to the public

Individual versus government responsibility for personal welfare	HBA (2013)	HBA (2012)	Canada Public	U.S. Public
1 (Government should take more responsibility to ensure that everyone is provided for)	2%	3%	6%	9%
2	6%	4%	5%	3%
3	8%	17%	8%	7%
4	14%	7%	7%	9%
5	12%	15%	16%	<b>16%</b>
6	12%	14%	10%	10%
7	15%	<b>19%</b>	15%	12%
8	<b>18%</b>	11%	<b>17%</b>	12%
9	5%	11%	8%	6%
10 (People should take responsibility to provide for themselves)	8%	9%	8%	12%
<b>Mean</b>	<b>6.0</b>	<b>6.27</b>	<b>6.0</b>	<b>5.9</b>

On the other hand, HBAs believe more than the public that larger income differences are warranted ...

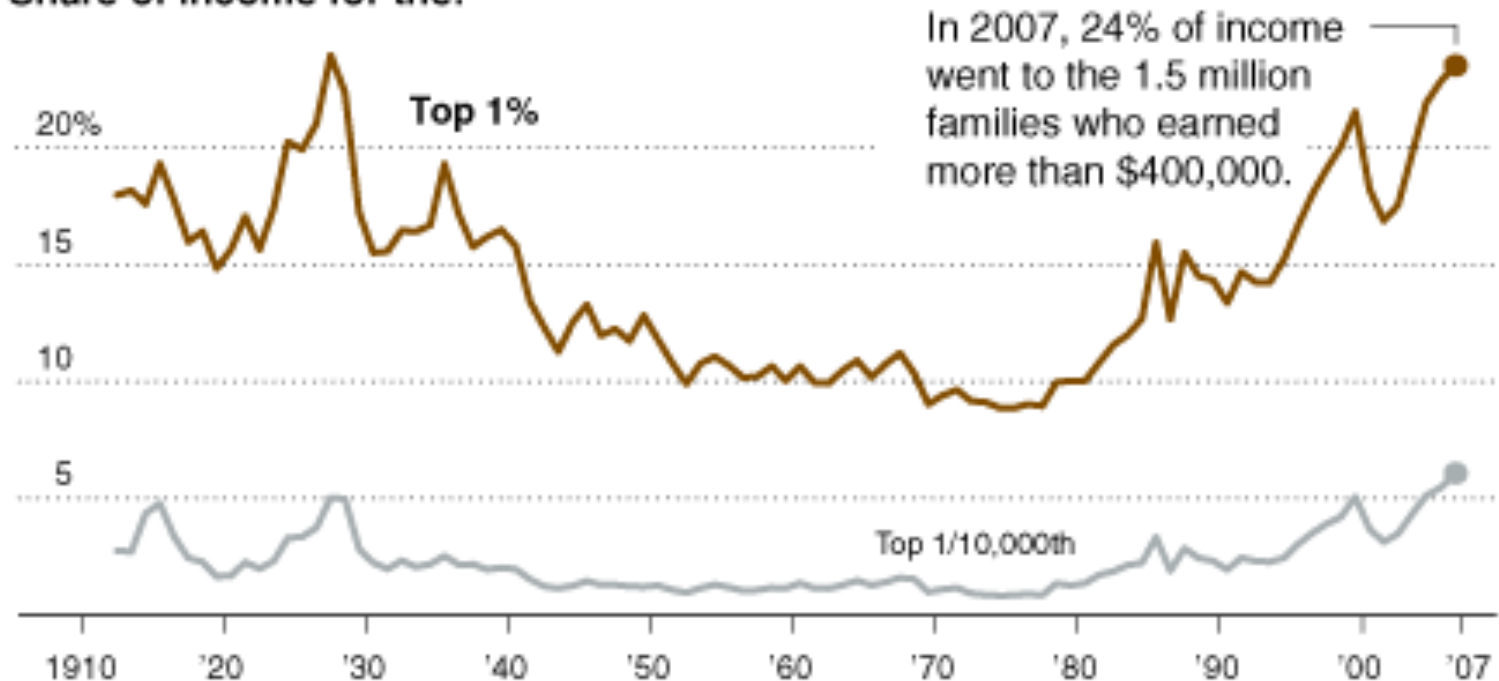
Views on income differences between people	Canada	HBA (2012)	HBA (2013)
1 (Income should be made more equal)	7.0%	2%	6%
2	4.7%	4%	3%
3	7.4%	7%	8%
4	8.9%	9%	10%
5	15.2%	11%	13%
6	10.5%	12%	14%
7	<b>18.3%</b>	20%	<b>19%</b>
8	17.1%	<b>21%</b>	13%
9	5.8%	6%	6%
10 (We need larger income differences as incentives for individual effort)	5.1%	9%	9%
<b>Mean</b>	<b>5.8</b>	<b>6.4</b>	<b>6.0</b>



... even though income inequalities are higher than since the 1930s (at least in the U.S.)

In contrast, from 1977 to 2007, the median family income rose less than 1 percent a year, after adjusting for inflation. The different growth rates have led to a less equal distribution of income.

Share of income for the:



# Key points

1. Competitive markets, free enterprise and the corporate profit motive have afforded society tremendous benefits



	South Korea	North Korea
GDP/capita (PPP)	\$30,000	\$1,800
Life expectancy	80 years	67 years

# Key points

2. But there are situations where private and public interests do not align
  - Market failures, extreme distributions of market outcomes



# Key points

- Corporations are often not trusted to 'do the right thing'
- Attitudes differ between business and society on appropriate public policies and the role of government

# Key points

3. Governments can limit the negative effects of corporate behavior; but they have limited resources, capabilities and, sometimes, the willingness to do so



# Key points

4. NGOs, activists and other civil society organizations are increasingly exerting pressures on corporations too, creating a new force to contend with



# Summary

- Corporations are subject to multiple external pressures beyond their industry settings that stem from inherent tensions between profit-seeking objectives and the public interest
- These pressures can profoundly affect business operations, strategy and performance
- As a manager, you need to know how to assess and manage the external environment of business

# Attitudes towards specific corporate practices



Apple has been criticized by non-governmental organizations (NGOs) for subcontracting the manufacture of its iPads and iPhones to Chinese suppliers who are deemed to treat their workers poorly. Should Apple require its subcontractors in China to improve working conditions and increase the wages the subcontractors pay their workers?

Answer	HBA (2013)	HBA (2012)
1 (Definitely Not)	9%	8%
2	9%	8%
3	6%	12%
4	14%	11%
5	<b>27%</b>	<b>28%</b>
6	18%	19%
7 (Definitely)	17%	15%
<b>Mean</b>	<b>4.60</b>	<b>4.58</b>

A major pharmaceutical company is facing immense pressure from human rights groups to lower the price of a patented drug that would cure a major disease in the third world. Should the company lower the price of its drug to affordable levels in the region, even if the price does not fully cover the drug's cost?

Answer	HBA (2013)	HBA (2012)
1 (Definitely Not)	6%	3%
2	10%	11%
3	20%	8%
4	14%	18%
5	20%	23%
6	14%	21%
7 (Definitely)	16%	16%
<b>Mean</b>	<b>4.38</b>	<b>4.74</b>

To what extent do you agree or disagree with the following statement:  
"Companies should seek to obtain and maintain dominant market positions in their industries."

Answer	HBA (2013)	HBA (2012)
1 (Strongly Disagree)	0%	1%
2	2%	1%
3	7%	8%
4	11%	9%
5	28%	20%
6	28%	30%
7 (Strongly Agree)	23%	33%
<b>Mean</b>	<b>5.41</b>	<b>5.64</b>

To what extent do you agree or disagree with the following statement:  
"Government needs to more stringently regulate the financial sector."

Answer	HBA (2013)	HBA (2012)
1 (Strongly Disagree)	2%	5%
2	8%	8%
3	15%	12%
4	25%	17%
5	23%	27%
6	18%	19%
7 (Strongly Agree)	9%	12%
<b>Mean</b>	<b>4.48</b>	<b>4.58</b>