**CHAPTER 7 MANAGING GROWTH AND TRANSITION**

**7.1 INTRODUCTION**

This chapter discusses about managing growth and transition to more formalization of organization. Entrepreneurs at the initial stage focus on resource mobilization. However, once companies reach to growth stage, they must continue to grow with proper management and leadership. The success of an entrepreneur in this process depends upon controllable and uncontrollable variables. In developing countries such as Ethiopia, the environment is not business friendly and a lot of challenges will start to emerge as the business grows. This chapter discusses about the challenges of growth, business ethics and corporate social responsibility.

**Chapter Objectives**

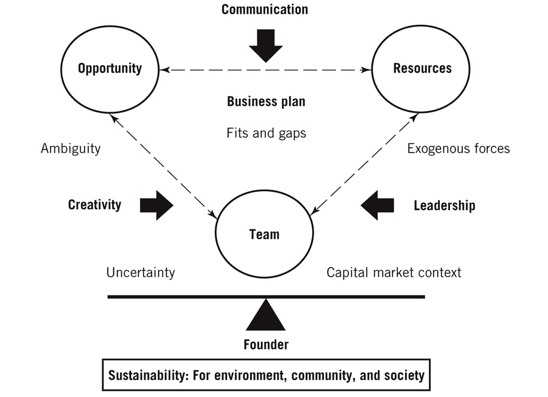
After completing this chapter, students will be able to:

* Identify factors that affect business growth,
* Understand business expansion strategies,
* Know & internalize business ethics & social responsibilities.

**7.2 Timmons Model of Entrepreneurship**

* **What key aspects does an entrepreneur need to manage to start and grow a business?**

To answer this question, we used Timmons basic model of entrepreneurship as indicated in Figure 7.1. This model identified the internal and external factors that determine the growth of business.



**Figure 7.1** Timmons model of entrepreneurship

Jeffry Timmons (2006) developed the Timmons model of entrepreneurship through his doctoral thesis. Further research and case studies have since enhanced the model, which works as a guide for entrepreneurs to increase their chances of success. According to Timmons, success in creating a new venture is driven by a few central themes that dominate the dynamic entrepreneurial process: it takes **opportunity**, a lead **entrepreneur** and an **entrepreneurial team**, **creativity**, **being careful with money**, and an **integrated, holistic, sustainable and balanced approach to the challenges ahead**. These controllable components of the entrepreneurial process can be assessed, influenced and altered. The entrepreneur searches for an opportunity, and on finding it, shapes the opportunity into a high-potential venture by drawing up a team and gathering the required resources to start a business that capitalizes on the opportunity, the entrepreneur risks his or her career, personal cash flow and net worth

According to the model, for an entrepreneur to create a successful venture, they must balance three key components indicated earlier as elaborated here below:

1. **Opportunities**: rather than developing a perfect business plan, Timmons suggests that the entrepreneur’s first and most important step is to identify and evaluate a solidly viable market opportunity, where after the business plan and funding will follow. Problems in the environment become opportunities for entrepreneurs.

As stated earlier, Timmons model dictates that the entrepreneurial process does not start with business plan, money, strategy, networks or team. The Timmons model believes strongly that entrepreneurship is nothing but opportunity driven. Opportunities are more essential than the talent or competence of lead entrepreneur and the team because a right opportunity identified ensures long- term success of the business. A good idea does not necessarily bring about a great business. An excellent idea is found when product or services could be positioned to create or add values to customer, remains attractive, durable and timely. For example, quality problems in education created tutorial programs in residential areas for parents and their children. The shortage and problems of housemaids created daycare centers in residential areas for working mothers. These become a business in Ethiopian cities. Weaknesses in student textbook preparation in Ethiopian schools created the opportunity of preparing supplementary textbooks by business operators for which questions banks and solved problems are developed.

1. **Teams**: once an opportunity has been identified, it is critical to gather a good team of people to unlock the potential of the opportunity. Team members do have defined roles. For instance, the success of a football team is determined by the qualities of team members as goal keeper, defense, midfield and attacking teams. Likewise, people in the team have different roles, weaknesses and strengths. No one is complete in all aspects. Teams do have also evolutionary stages for maturity.

A highly effective lead entrepreneur should be able to put the best talent together after identifying the opportunity and gathering required resources. The sizes and the background of the team are contingent upon the size and nature of opportunity. According to Timmons model, a good team can lead to great success and a badly formed team can waste great idea which is disaster to any form of business. Among all resource, only a good team can unlock a high potential with any opportunity and manage the pressure related to growth.

The two major roles of the team, relative to the other critical factors are:

* Removing the ambiguity and uncertainty of the opportunity by applying creativity (inventiveness).
* Providing leadership to manage the available resources in the most effective manner by interacting with exogenous (external) forces and the capital market context that keeps changing constantly.

1. **Resources:** finding and managing appropriate resources requires different skills than finding and managing good people, but it is equally important for eventual success. Resources may include tangible and intangible resources. Knowledge, goodwill, information, etc., are intangible resources. Buildings, land, information technology, human resource, money, etc., are tangible resources.

Timmons suggests that balancing, or successfully juggling, these three dynamic factors is key to achieving business success. These factors are to be primarily managed through creativity, communication and leadership, to help bring the opportunity to a viable business model. Entrepreneurs, or aspiring entrepreneurs, tend to have a number of qualities that help them to identify a good market opportunity. These can include knowledge of the industry, the possible offering for the user, a sense of timing and how to enter the market, and the capacity to deal with changing situations and uncertainties. It is the entrepreneur’s task to identify and capitalize on favorable events and take charge of the success equation.

As stated earlier, the Timmons model stimulates the focus on opportunities rather than threats or limitations. It brings an academically tested approach to creating new ventures, at least in concept, written down in a business plan, describing where the fits and gaps are among the three key factors of the model. It must be acknowledged that the model sees the creation of a venture as an evolutionary process. The three critical factors of entrepreneurship in the model (opportunities, team and resources) are therefore not easy to manage separately; changes in one factor have a strong influence on the other factors.

**7.3 New Venture Expansion Strategies**

**7.3.1 Introduction**

All successful small business startups eventually face the issue of handling business expansion or growth. Business expansion is a stage of a company's life that is troubled with both opportunities and perils. On the one hand, business growth often carries with it a corresponding increase in financial fortunes for owners and employees alike. In addition, expansion is usually seen as a validation of the [entrepreneur](https://www.referenceforbusiness.com/knowledge/Entrepreneur.html)'s initial business startup idea, and of his or her subsequent efforts to bring that vision to fruition. But business expansion also presents the small business owner with myriad issues that have to be addressed. Growth causes a variety of changes, all of which present different managerial, legal, and financial challenges. Growth means that new employees will be hired who will be looking to the top management of the company for leadership. Growth means that the company's management will become less and less centralized, and this may raise the levels of internal politics, protectionism, and disagreement over what goals and projects the company should pursue. Growth means that market share will expand, calling for new strategies for dealing with larger competitors. Growth also means that additional capital will be required, creating new responsibilities to shareholders, investors, and institutional lenders. Thus, growth brings with it a variety of changes in the company's structure, needs, and objectives. Given these realities the need of the organization to grow must be strengthened by the need to understand that meaningful, long-term objectives. Profitable growth is a [by-product](https://www.referenceforbusiness.com/knowledge/By_product.html) of effective management and planning of the three factors indicated.

**7.3.2 Methods of Growth**

Small businesses can expand their operations by pursuing any number of avenues. The most commonplace methods by which small companies increase their business are incremental in character, i.e., increasing product inventory or services rendered without making wholesale changes to facilities or other operational components. But usually, after some period of time, businesses that have the capacity and desire to grow will find that other options should be studied. Common routes of small business expansion include the following common options:

* Growth through acquisition of another existing business (almost always smaller in size),
* Offering franchise ownership to other entrepreneurs,
* Licensing of intellectual property to third parties, (license for the use of certain innovative models on fee basis may be given to certain companies). This is very common for Software products.
* Establishment of business agreements with distributorships and/or dealerships,
* Pursuing new marketing routes (such as catalogs),
* Joining industry cooperatives to achieve savings in certain common areas of operation, including advertising and purchasing,
* public stock offerings (selling shares to investors and to the general public),
* Employee stock ownership plans (entrepreneurs may give/sell shares to employees as incentive for motivation. Through this process, employee owned companies may be established. This is very common for social enterprises and among Chinese firms.

Of course, none of the above options should be pursued until the business's ownership has laid the necessary groundwork for growth. The growth process begins with an honest assessment of strengths and weaknesses. Given those skills, the organization then identifies the key markets or types of future market opportunities the company is likely to capture. This, of course, raises another set of issues about how to best develop the structures and processes that will further enhance the organization's core capabilities. Once these structures and processes are identified and the long range planning completed, the business has a view of where it will be in three to five years and agreement on key strategies for building future business. One method of growth, namely organic business growth, is explained here.

**7.3.3 The Ansoff Matrix – Growth Strategy**

**What is our business growth strategy in relation to new or existing markets and products?**

The Ansoff Matrix is a strategic-planning tool that provides a framework to help executives, senior managers, and marketers devise strategies for future growth. It is named after Russian American Igor Ansoff, who came up with the concept. Ansoff suggested that there were effectively only two approaches to developing a growth strategy; through varying what is sold (product growth) and who it is sold to (market growth).

“When we are in peak, we make a ton of money, as soon as we make a ton of money; we are desperately looking for ways to spend it. And we diversify into areas that, frankly, we don’t know how to run very well,” thought Bill Ford, great grandson of Henry. Ford’s story is neither unique nor new and companies often choose sub-optimal growth paths.

Igor Ansoff created the product/market matrix to illustrate the inherent risks in four generic growth strategies as summarized here below:

1. **Market penetration / consumption** – the firm seeks to achieve growth with existing products in their current market segments, aiming to increase market share. This is a low risk strategy because of the high experience of the entrepreneur with the product and market.
2. **Market development** – the firm seeks growth by pushing its existing products into new market segments. Market development has medium to high risk.
3. **Product development** – the firm develops new products targeted to its existing market segments. This alternative growth strategy is characterized by medium to high risk due to lack of experience about the new product.
4. **Diversification** – the firm grows by developing new products for new markets. This is high risk option as entrepreneurs do not have experience about the product and the market.

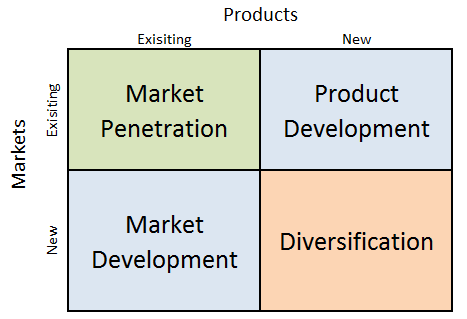


Figure 7.2 Ansoff’s Matrix

**7.3.3.1 Selecting a Product-Market Growth Strategy**

* + 1. **Market penetration / consumption:**

Market penetration and consumption covers products that are existent in an existing market. In this strategy, there can be further exploitation of the products without necessarily changing the product or the outlook of the product. This will be possible through the use of promotional methods, putting various pricing policies that may attract more customers, or one can make the distribution more extensive.

Market penetration or consumption can also be increased by coming up with various initiatives that will encourage increased usage of the product. A good example is the usage of toothpaste. Research has shown that the toothbrush head influences the amount of toothpaste that one will use. Thus if the head of the toothbrush is bigger it will mean that more toothpaste will be used thus promoting the usage of the toothpaste and eventually leading to more purchase of the toothpaste.

In market penetration / consumption, the risk involved is usually the least since the products are already familiar to the consumers and so is the established market.

* + 1. **Market development**

In this strategy, the business sells its existing products to new markets. This can be made possible through further market segmentation to aid in identifying a new clientele base. This strategy assumes that the existing markets have been fully exploited thus the need to venture into new markets. There are various approaches to this strategy, which include: new geographical markets, new distribution channels, new product packaging, and different pricing policies.

Going into new geographies could involve launching the product in a completely different market. A good example is Guinness. This beer had originally been made to be sold in countries that have a colder climate, but now it is also being sold in African countries including Ethiopia.

New distribution channels could entail selling the products via e-commerce or mail order. Selling through e-commerce may capture a larger clientele base since we are in a digital era where most people access the Internet often. In new product packaging, it means repacking the product in another method or dimension. That way it may attract a different customer base. In different pricing policies, the business could change its prices so as to attract a different customer base or create a new market segment.

* + 1. **Product development**

With a product-development growth strategy, a new product is introduced into existing markets. Product development can be from the introduction of a new product in an existing market or it can involve the modification of an existing product. By modifying the product one could change its outlook or presentation, increase the product’s performance or quality. By doing so, it can be more appealing to the existing market. A good example is car manufacturers who offer a range of car parts so as to target the car owners in purchasing additional products.

* + 1. **Diversification**

This growth strategy involves an organization marketing or selling new products to new markets at the same time. It is the most risky strategy as it involves two unknowns:

* New products are being created and the business does not know the development problems that may occur in the process.
* There is also the fact that there is a new market being targeted, which will bring the problem of having unknown characteristics.

For a business to take a step into diversification, they need to have their facts right regarding what it expects to gain from the strategy and have a clear assessment of the risks involved. There are two types of diversification – related diversification and unrelated diversification.

In related diversification, the business remains in the same industry in which it is currently operating. For example, a cake manufacturer diversifies into fresh-juice manufacturing. This diversification is within the food industry.

In unrelated diversification, there are usually no previous industry relations or market experiences. One can diversify from a food industry into the personal-care industry. A good example of the unrelated diversification is Richard Branson. He took advantage of the Virgin brand and diversified into various fields such as entertainment, air and rail travel, foods, etc. Sir Branson has more than 400 companies.

**7.3.4 Expansion Issues**

Whatever method a company chooses to utilize to expand—and whatever guiding strategy it chooses to employ its owners will likely face a combination of potentially frustrating issues as they try to grow their business in a smooth and productive manner. *Growth* means understanding, adjusting to, and managing a whole new set of challenges in essence, a very different business.

* + - * 1. **Growing Too Fast**

This is a common disease that strikes ambitious and talented entrepreneurs who have built a flourishing business that meets a strong demand for a specific set of goods and/or services. Success is wonderful, of course, but rapid growth can sometimes overwhelm the ill-prepared business owner. Companies growing at hyper-speed sometimes pay a steep price for their success. According to management experts, controlling fast-track growth and the problems that come with it can be one of the most frightening tasks an entrepreneur will face. This problem most often strikes on the operational end of a business. Demand for a product will outpace production capacity, for example. Effective research and long range planning can do a lot to relieve the problems often associated with rapid business expansion.

* + - * 1. **Recordkeeping and Other Infrastructure Needs**

It is essential for small businesses that are undergoing expansion to establish or update systems for monitoring cash flow, tracking inventories and deliveries, managing finances, tracking human resources information, and myriad other aspects of the rapidly expanding business operation. In addition, growing enterprises often have to invest in more sophisticated communication systems in order to provide adequate support to various business operations.

* + - * 1. **Expansion Capital**

Small businesses experiencing growth often require additional financing. Finding expansion capital can be a frustrating experience for the ill-prepared entrepreneur, but for those who plan ahead, it can be far less painful. Businesses should revise their business plan on an annual basis and update marketing strategies accordingly so that you are equipped to secure financing under the most advantageous terms possible.

* + - * 1. **Personnel Issues**

Growing companies will almost always have to hire new personnel to meet the demands associated with new production, new marketing campaigns, new recordkeeping and administrative requirements, etc. Careful hiring practices are always essential, but they are even more so when a business is engaged in a sensitive period of expansion.

Business expansion also brings with it increased opportunities for staff members who were a part of the business in its early days. The entrepreneur who recognizes these opportunities and delegates responsibilities appropriately can go far toward satisfying the desires of employees who want to grow in both personal and professional capacities. But, small business owners also need to recognize that business growth often triggers the departure of workers who are either unable or unwilling to adjust to the changing business environment. Indeed, some employees prefer the more relaxed, family-type atmosphere that is prevalent at many small business establishments to the more business-like environment that often accompanies periods of growth. Entrepreneurs who pursue a course of ambitious expansion may find that some of their most valuable and well-liked employees decide to instead take a different path with their lives.

* + - * 1. **Customer Service**

Good customer service is often a significant factor in small business success, but ironically it is also one of the first things that tends to fall by the roadside when business growth takes on a hectic flavor. When the workload increases tremendously, there's a feeling of being overwhelmed. And sometimes you have a hard time getting back to clients in a timely fashion. So the very customer service that caused your growth in the first place becomes difficult to sustain. Under such scenarios, businesses not only have greater difficulty retaining existing clients, but also become less effective at securing new business. A key to minimizing such developments is to maintain adequate staffing levels to ensure that customers receive the attention and service they demand (and deserve).

* + - * 1. **Disagreements among Ownership**

On many occasions, ownership arrangements that functioned fairly effectively during the early stages of a company's life can become increasingly problematic as business issues become more complex and divergent philosophies emerge. For example, one or more of the cofounders are unable to keep pace with the level of sophistication or business wisdom that the company now requires. Such a cofounder is no longer making a significant contribution to the business and in essence has become 'obsolete.' It's even harder when the obsolete partner is a close friend or family member. In this case, you need to ask: Will the obsolete cofounder's ego allow for a position of diminished responsibility? Can our overhead continue to keep him or her on staff?" Another common scenario that unfolds during times of business growth is that the owners realize that they have profoundly different visions of the company's future direction. One founder may want to devote resources to exploring new marketing niches, while the other may be convinced that [consolidation](https://www.referenceforbusiness.com/knowledge/Consolidation.html) of the company's presence in existing markets is the way to go. In such instances, the departure of one or more partners may be necessary to establish a unified direction for the growing company.

* + - * 1. **Family Issues**

Embarking on a strategy of aggressive business expansion typically [entails](https://www.referenceforbusiness.com/knowledge/Entailment.html) an extensive sacrifice of time and often of money on the part of the owner (or owners). But as many growing companies especially those founded by younger entrepreneurs, are established at a time when all of the cofounders are either unmarried or in the early stages of a marriage. As the size of the company grows, so does the size of the cofounder’s family. Cofounders with young children may feel pressure to spend more time at home, but their absence will significantly cut their ability to make a continuous, valuable contribution to the company's growth. Entrepreneurs thinking a strategy of business growth, then, need to decide whether they are willing to make the sacrifices that such initiatives often require.

* + - * 1. **Transformation of Company Culture**

As companies grow, entrepreneurs often find it increasingly difficult for them to keep the business grounded on the [bedrock](https://www.referenceforbusiness.com/knowledge/Bedrock.html) values that were instituted in its early days. Owners are ultimately the people that are most responsible for communicating those values to employees. But as staff size increases, markets grow, and deadlines proliferate, that responsibility gradually falls by the edge and the company culture becomes one that is far different from the one that was in place and enjoyed just a few short years ago. Entrepreneurs need to make sure that they stay attentive to their obligations and role in shaping company culture.

* + - * 1. **Changing Role of Owner At The Initial State**

You have few employees; you're doing lots of things yourself. But when a company experiences its first real surge of growth, it's time for you to change what you do. You need to become a CEO—that is, the leader, the strategic thinker, and the planner—and to delegate day-to-day operations to others. Moreover, as businesses grow in size they often encounter problems that increasingly require the experience and knowledge of outside people. Entrepreneurs guiding growing businesses have to be willing to solicit the expertise of accounting and legal experts where necessary, and they have to recognize their shortcomings in other areas that assume increased importance with business expansion.

**7.3.5 Choosing not to Grow**

Small business owners choose not to expand their operations even though they have ample opportunity to do so. For many small business people, the greatest satisfactions in owning a business, which often include working closely with customers and employees, inevitably diminish as the business grows and the owner's role changes. Many entrepreneurs would rather limit growth than give up those satisfactions. Other successful small business owners, meanwhile, simply prefer to avoid the headaches that inevitably occur with increases in staff size, etc. And many small business owners choose to maintain their operations at a certain level because it enables them to devote time to family and other interests that would otherwise be allocated to expansion efforts.

**7.4 Business Ethics and Social Responsibility**

**Learning Objectives**

* Define and discuss the three main theories of corporate social responsibility (CSR).
* Explain why CSR ultimately benefits both companies and their stakeholders.

**7.4.1 Introduction**

Business organizations, as established by their entrepreneurs, are expected to do their businesses in a sustainable and ethical manner. For this there are certain theories that we should understand. These theories have been evolving through time as business practices mature and grow as well as societal and government influence increase.

**7.4.2 Three Approaches to Corporate Responsibility**

According to the traditional view of the corporation, it exists primarily to make profits supported by stockholder theory. From this money-centered perspective, insofar as business ethics are important, they apply to moral dilemmas arising as the struggle for profit proceeds. These dilemmas include: “What obligations do organizations have to ensure that individuals seeking employment or promotion are treated fairly?” “How should conflicts of interest be handled?” and “What kind of advertising strategy should be pursued?” “What pricing strategy should be pursued?”

While these dilemmas continue to be important throughout the economic world, when businesses are conceived as holding a wide range of economic and civic responsibilities as part of their daily operation, the field of business ethics expands correspondingly. Now there are large sets of issues that need to be confronted and managed outside of and independent of the struggle for money. Broadly, there are three theoretical approaches to these new responsibilities:

1. Corporate social responsibility (CSR)
2. The triple bottom line
3. Stakeholder theory

**Corporate Social Responsibility (CSR)**

The title corporate social responsibility has two meanings. First, it’s a general name for any theory of the corporation that emphasizes both the responsibility to make money and the responsibility to interact ethically with the surrounding community. Second, corporate social responsibility is also a specific conception of that responsibility to profit while playing a role in broader questions of community welfare. For its definition, CRS is a philosophy in which the company’s expected actions include not only producing a reliable product, charging a fair price with fair profit margins, and paying a fair wage to employees, but also caring for the environment and acting on other social concerns.

As a specific theory of the way corporations interact with the surrounding community and larger world, corporate social responsibility (CSR) is composed of four obligations:

1. **The economic responsibility to make money**. Required by simple economics, this obligation is the business version of the human survival instinct (to live we have to eat). Companies that don’t make profits are in a modern market economy doomed to perish. Of course there are special cases. Nonprofit organizations make money (from their own activities as well as through donations and grants), but pour it back into their work. Also, public/private hybrids can operate without turning a profit. In some cities, trash collection is handled by this kind of organization, one that keeps the streets clean without (at least theoretically) making anyone rich. For the vast majority of operations, however, there have to be profits. Without them, there’s no business and no business ethics.
2. **The legal responsibility** to adhere to rules and regulations. Like the previous, this responsibility is not controversial. What proponents of CSR argue, however, is that this obligation must be understood as a proactive duty. That is, laws aren’t boundaries that enterprises skirt and cross over if the penalty is low; instead, responsible organizations accept the rules as a social good and make good faith efforts to obey not just the letter but also the spirit of the limits. In concrete terms, this is the difference between the driver who stays under the speed limit because he can’t afford a traffic ticket, and one who obeys because society as a whole is served when we all agree to respect the signs and stoplights and limits.
3. **The ethical responsibility** to do what’s right even when not required by the letter or spirit of the law. This is the theory’s keystone obligation, and it depends on a coherent corporate culture that views the business itself as a citizen in society, with the kind of obligations that citizenship normally entails. When someone is racing their Porsche along a country road on a freezing winter’s night and encounters another driver stopped on the roadside with a flat, there’s a social obligation to do something, though not a legal one. The same logic can work in the corporate world. Many industrial plants produce, as an unavoidable part of their fabricating process, poisonous waste. Think of a plant producing toxin in the manufacturing process. The law governing toxic waste disposal may be ambiguous, but even if the companies are not legally required to enclose their poisons in double-encased, leak-proof barrels, isn’t that the right thing to do so as to ensure that the contamination will be safely contained? True, it might not be the right thing to do in terms of pure profits, but from a perspective that values everyone’s welfare as being valuable, the measure could be recommendable.
4. **The philanthropic responsibility** to contribute to society’s projects even when they’re independent of the particular business. A lawyer driving home from work may spot the local children gathered around an impoverished area stand and sense an obligation to buy food to contribute to the neighborhood project. Similarly, a law firm may volunteer access to their offices for an afternoon every year so some local schoolchildren may take a field trip to discover what lawyers do all day. An industrial chemical company may take the lead in rehabilitating an empty lot into a park. None of these acts arise as obligations extending from the day-to-day operations of the business involved. They’re not like the responsibility a chemical firm has for safe disposal of its waste. Instead, these public acts of generosity represent a view that businesses, like everyone in the world, have some obligation to support the general welfare in ways determined by the needs of the surrounding community.

**The Triple Bottom Line**

The triple bottom line is a form of corporate social responsibility dictating that corporate leaders formulate bottom-line results not only in economic terms (costs versus revenue) but also in terms of company effects in the social realm, and with respect to the environment. There are two keys to this idea. First, the three columns of responsibility must be kept separate, with results reported independently for each. Second, in all three of these areas, the company should obtain sustainable results.

The notion of sustainability is very specific. At the intersection of ethics and economics, sustainability means the long-term maintenance of balance. As elaborated by here below how the balance is defined and achieved economically, socially, and environmentally:

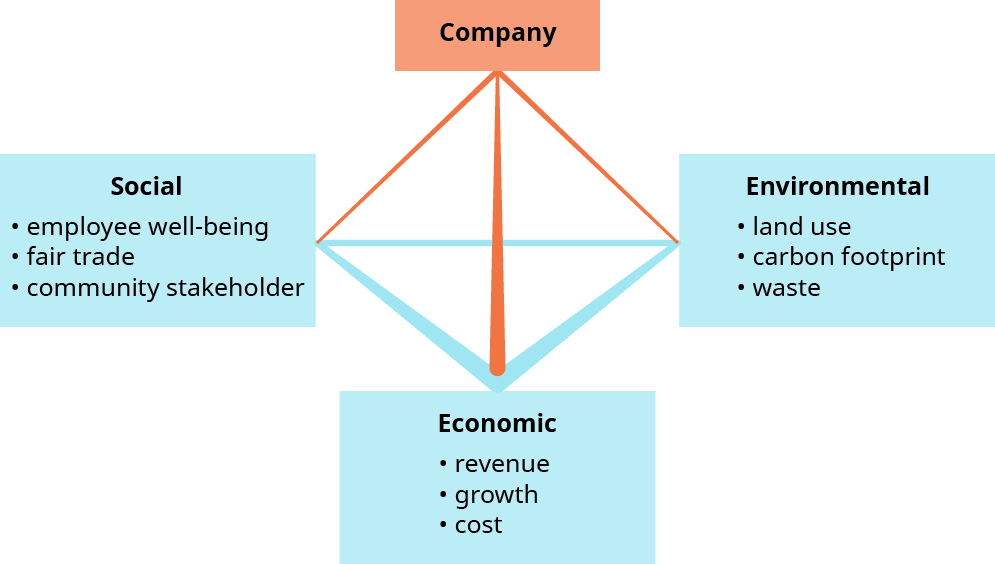


Figure 7.3 Triple bottom lines

* **Economic sustainability** values long-term financial solidity over more volatile, short-term profits, no matter how high. According to the triple-bottom-line model, corporations have a responsibility to create business plans allowing stable and prolonged action. That bias in favor of duration should make companies hesitant about investing in things like dot-coms. While it’s true that speculative ventures may lead to windfalls, they may also lead to collapse. Silicon Valley, California, for example, is full of small, start-up companies. A few will convert into the next Google, Apple, and Microsoft. What gets left out, however, of the newspaper reports hailing the accomplishments of a Steve Jobs or a Bill Gates are all those other people who never made it—all those who invested family savings in a project that ended up bankrupt. Sustainability as a virtue means valuing business plans that may not lead to quick riches but that also avoid disastrous losses.
* **Social sustainability** values balance in people’s lives and the way we live. A world in which a few Fortune 500 executives are moving down millions a year, while millions of people elsewhere in the world are living on pennies a day can’t go on forever. As the imbalances grow, as the rich get richer and the poor get both poorer and more numerous, the chances that society itself will collapse in anger and revolution increase. The threat of governmental overthrow from below sounds remote almost absurd for powerful nations such as to Americans who are accustomed to a solid middle class and minimal resentment of the wealthy. In world history, however, such revolutions are quite common. That doesn’t mean revolution is coming to our time’s developed nations. It may indicate, however, that for a business to be stable over the long term, opportunities and subsequently wealth need to be spread out to cover as many people as possible.

The **fair trade movement** fits this ethical imperative to shared opportunity and wealth. Developed and refined as an idea in Europe in the 1960s, organizations promoting fair trade ask businesses—especially large producers in the richest countries to guarantee that suppliers in impoverished nations receive reasonable payment for their goods and services even when the raw economic laws of supply and demand don’t require it. An array of ethical arguments may be arranged to support fair trade, but on the front of sustainability, the lead argument is that peace and order in the world depend on the world’s resources being divided up in ways that limit greed, resentment, and anger. For instance, there is a fair trade practice for specialty coffee from Ethiopian farmers to markets of developed nations. Ethiopian coffee farmers, through specialty coffee as certified, get more than 30% than the prices of normal coffee.

Social sustainability doesn’t end with dollars; it also requires human respect. All work, the logic of stability dictates, contains dignity, and no workers deserve to be treated like machines or as expendable tools on a production line. In today’s capitalism, many see—and the perception is especially strong in Europe a world in which dignity has been stripped away from a large number of trades and professions.

Finally, social sustainability requires that corporations as citizens in a specific community of people maintain a healthy relationship with those people. Corporations should not affect the health of community negatively.

* **Environmental sustainability** begins from the affirmation that natural resources—especially the oil fueling engines, the clean air we breathe, and the water we drink—are limited. If those things deteriorate significantly, our children won’t be able to enjoy the same quality of life most of us experience. Conservation of resources, therefore, becomes tremendously important, as does the development of new sources of energy that may substitute those we’re currently using.

Further, the case of an industrial chemical company pouring toxins into the ground that erupt years later with horrific consequences evidences this: not only are resources finite, but our earth is limited in its ability to naturally regenerate clean air and water from the pipes and runoff of our industries. There are, clearly, good faith debates that thoughtful people can have about where those limits are. For example, have we released greenhouse gases into the air so heavily that the earth’s temperature is rising? No one knows for sure, but it’s certain that somewhere there’s a limit; at some point carbon-burning pollution will do to the planet: make the place unlivable. Sustainability, finally, on this environmental front means actions must be taken to facilitate our natural world’s renewal. Recycling or cleaning up contamination that already exists is important here, as is limiting the pollution emitted from factories, cars, and consumer products in the first place. All these are actions that corporations must support, not because they’re legally required to do so, but because the preservation of a livable planet is a direct obligation within the triple-bottom-line model of business responsibility.

Together, these three notions of sustainability economic, social, and environmental guide businesses toward actions fitted to the conception of the corporation as a participating citizen in the community and not just as a money machine.

One deep difference between corporate social responsibility and the triple bottom line is cultural. The first is more American, the second European. Americans, accustomed to economic progress, tend to be more comfortable with, and optimistic about, change. Collectively, Americans want business to transform the world, and ethical thinking is there (hopefully) to help the transformations maximize improvement across society. Europeans, accustomed to general economic decline with respect to the United States, view change much less favorably. Their inclination is to slow development down, and to keep things the same as far as possible. This outlook is naturally suited to sustainability as a guiding value.

**Stakeholder Theory**

Stakeholder theory, which has been described by Edward Freeman and others, is the mirror image of corporate social responsibility. Instead of starting with a business and looking out into the world to see what ethical obligations are there, stakeholder theory starts in the world. It lists and describes those individuals and groups who will be affected by (or affect) the company’s actions and asks, “What are their legitimate claims on the business?” “What rights do they have with respect to the company’s actions?” and “What kind of responsibilities and obligations can they justifiably impose on a particular business?” In a single sentence, stakeholder theory affirms that those whose lives are touched by a corporation hold a right and obligation to participate in directing it.

As a simple example, when a factory produces industrial waste, a CSR perspective attaches a responsibility directly to factory owners to dispose of the waste safely. By contrast, a stakeholder theorist begins with those living in the surrounding community who may find their environment poisoned, and begins to talk about business ethics by insisting that they have a right to clean air and water. Therefore, they’re stakeholders in the company and their voices must contribute to corporate decisions. It’s true that they may own no stock, but they have a moral claim to participate in the decision-making process. This is a very important point. At least in theoretical form, those affected by a company’s actions actually become something like shareholders and owners. Because they’re touched by a company’s actions, they have a right to participate in managing it.

Who are the stakeholders surrounding companies? The answer depends on the particular business, but the list can be quite extensive. If the enterprise produces chemicals for industrial use and is located in a small town, the stakeholders and their interests in parentheses include:

* Company owners, whether a private individual or shareholders, (reasonable profit)
* Company workers (reasonable salaries that enable them to live decent lives),
* Customers and potential customers of the company (quality products at fair prices),
* Suppliers and potential suppliers to the company (fair prices for their inputs),
* Everyone living in the town who may be affected by contamination from workplace operations,
* Creditors whose money or loaned goods are mixed into the company’s actions,
* Government entities involved in regulation and taxation (fair tax),
* Local businesses that cater to company employees (restaurants where workers have lunch, grocery stores where employee families shop, and similar),
* Other companies in the same line of work competing for market share (fair competition for competitiveness of the industry),

The outer limits of stake-holding are blurry. In an abstract sense, it’s probably true that everyone in the world counts as a stakeholder of any serious factory insofar as we all breathe the same air and because the global economy is so tightly linked that decisions taken in a boardroom in a small town on the East Coast can end up costing someone in India her job and the effects keep rippling out from there.

In practical terms, however, a strict stakeholder theory—one insistently bestowing the power to make ethical claims on anyone affected by a company’s action—would be inoperable. There’d be no end to simply figuring out whose rights needed to be accounted for. Realistically, the stakeholders surrounding a business should be defined as those tangibly affected by the company’s action. There ought to be an unbroken line that you can follow from a corporate decision to an individual’s life.

Once a discrete set of stakeholders surrounding an enterprise has been located, **stakeholder ethics may begin**. The purpose of the firm, underneath this theory, is to maximize profit on a collective bottom line, with profit defined not as money but as human welfare. The collective bottom line is the summed effect of a company’s actions on all stakeholders. Company managers, that means, are primarily charged not with representing the interests of shareholders (the owners of the company) but with the more social task of coordinating the interests of all stakeholders, balancing them in the case of conflict and maximizing the sum of benefits over the medium and long term. Corporate directors, in other words, spend part of the day just as directors always have: explaining to board members and shareholders how it is that the current plans will boost profits. They spend other parts of the day, however, talking with other stakeholders about their interests: they ask for input from local environmentalists about how pollution could be limited, they seek advice from consumers about how product safety could be improved and so on. At every turn, stakeholders are treated (to some extent) like shareholders, as people whose interests need to be served and whose voices carry real force.

In many cases transparency is an important value for those promoting stakeholder ethics. The reasoning is simple: if you’re going to let every stakeholder actively participate in a corporation’s decision making, then those stakeholders need to have a good idea about what’s going on. The theory demands that all those who may be affected know what’s being dumped, what the risks are to people and the environment, and what the costs are of taking the steps necessary to dispose of the chemical runoff more permanently and safely.

**7.4.3 Business Ethics Principles**

There are certain universal ethical principles that managers of enterprises must adhere to. Ethical values, translated into active language establishing standards or rules describing the kind of behavior an ethical person should and should not engage in, are ethical principles. The following list of principles incorporates the characteristics and values that most people associate with ethical behavior.

1. **Honesty**. Ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means.

2. **Integrity**. Ethical executives demonstrate personal integrity and the courage of their convictions by doing what they think is right even when there is great pressure to do otherwise; they are principled, honorable and upright; they will fight for their beliefs. They will not sacrifice principle for suitability, be hypocritical, or unscrupulous.

3. **Promise-Keeping & Trustworthiness**. Ethical executives are worthy of trust. They are candid and forthcoming in supplying relevant information and correcting misapprehensions of fact, and they make every reasonable effort to fulfill the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or legalistic manner in order to rationalize non-compliance or create justifications for escaping their commitments.

4. **Loyalty**. Ethical executives are worthy of trust, demonstrate fidelity and loyalty to persons and institutions by friendship in adversity, support and devotion to duty; they do not use or disclose information learned in confidence for personal advantage. They safeguard the ability to make independent professional judgments by scrupulously avoiding undue influences and conflicts of interest. They are loyal to their companies and colleagues and if they decide to accept other employment, they provide reasonable notice, respect the proprietary information of their former employer, and refuse to engage in any activities that take undue advantage of their previous positions.

5. **Fairness**. Ethical executives are fair and just in all dealings; they do not exercise power arbitrarily, and do not use overreaching nor offensive means to gain or maintain any advantage nor take undue advantage of another’s mistakes or difficulties. Fair persons manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity, they are open-minded; they are willing to admit they are wrong and, where appropriate, change their positions and beliefs.

6. **Concern for Others**. Ethical executives are caring, compassionate, benevolent and kind; they like the **Golden Rule**, help those in needs, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.

7. **Respect for Others.** Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin.

8. **Law Abiding**. Ethical executives abide by laws, rules and regulations relating to their business activities.

9. **Commitment to Excellence**. Ethical executives pursue excellence in performing their duties, are well informed and prepared, and constantly endeavor to increase their proficiency in all areas of responsibility.

10. **Leadership**. Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.

11. **Reputation and Morale**. Ethical executives seek to protect and build the company’s good reputation and the morale of its employees by engaging in no conduct that might undermine respect and by taking whatever actions are necessary to correct or prevent inappropriate conduct of others.

12. **Accountability.** Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.