

# Strategic Management/Business Policy in a Catholic Business School

Developed by Stephen Porth and John McCall

Revised January 2014

## Class # 24: Strategy Evaluation: Assessing Organizational Performance

Faced with the widespread destruction of the environment, people everywhere are coming to understand that we cannot continue to use the goods of the earth as we have in the past. . . [A] new *ecological awareness* is beginning to emerge. . . The ecological crisis is a moral issue.

Pope John Paul II, *The Ecological Crisis: A Common Responsibility*, nos. 1, 15, December 8, 1989

As noted above, the strategic management process includes the steps involved in formulating, implementing and evaluating strategy. Regarding strategy evaluation, a foundational principle of the field is that successful strategic management leads to improved organizational performance, traditionally defined by financial metrics. An exclusive focus on financial measures of performance, however, is not only inconsistent with Catholic Social Teaching, it is increasingly criticized as inadequate by both researchers and practitioners. Harkening back to our discussion in classes 1 and 2 (see teaching notes above), we have already established that the purpose of strategic management is to do more than create financial value for stockholders. One limitation of financial measures of performance is their exclusive focus on the primacy of stockholders.

The notion of a “Balanced Scorecard” approach to strategy assessment has gained traction since its introduction in the 1990s by Kaplan and Norton (*The Balanced Scorecard: Translating Strategy Into Action*, Harvard Press, 1996). The Balanced Scorecard is based on a critique of the traditional exclusive focus on financial measures of organizational performance, contending that no single measure can focus management’s attention on all critical decision areas. Furthermore, financial metrics are backward-looking as they are based on historical data. The Balanced Scorecard includes forward-looking metrics and focuses not only on creating financial value for stockholders/owners but on customer value, innovation and internal operations.

The Balanced Scorecard, however, also has its limitations, as it does not account for corporate social responsibility or the impact of the firm on the natural environment. While the Catholic Church has been criticized by some as coming late to the environmental sustainability discussion, in more recent years the Church has made strong pronouncements on the topic, linking care for the environment to the CST principle of the common good. For example, Centesimus Annus (1996) states:

106. The Church recognises that care for the environment is part of care for the common good – the environment is one of the “common goods” which are the shared responsibility of the human race. We have to reject some of the easy assumptions of an earlier stage of industrialisation, such as that the human race,

because God had given it dominion over the world, had an unlimited freedom to despoil the natural environment for its own purposes. Those who feel moved to a loving care for the internal balances of nature are responding to a deep religious instinct implanted within them by God. Their intuition tells them that the human race takes its place on this planet as a gift and privilege, and needs to cultivate what the new Catechism of the Catholic Church calls a “religious respect for the integrity of creation.”

107. Our environmental “common goods” are not only available for careful use and enjoyment today, but are held in trust for the use and enjoyment of future generations. Public authorities must never treat them as having no intrinsic worth, nor do commercial concerns see them merely as sources of profit or loss. Regarded in those terms, the environment is a great repository of natural wealth, belonging to all humanity, present and future, freely and equally. Because of this environmental mortgage that the future holds over the present, none of this natural wealth can be owned outright, as if nobody but the owner had any say in its disposal. Each generation takes the natural environment on loan, and must return it after use in as well or better condition as when it was first borrowed.

The United States Conference of Catholic Bishops in 1991 issued the pastoral statement, *Renewing the Earth*, “an invitation to reflection and action on environment in light of Catholic Social Teaching.” The Bishops identify the effects of environmental degradation and call for “a society where economic life and environmental commitment work together to protect and enhance life on this planet.” Among the six goals of the Bishops’ statement are:

- to highlight the ethical dimensions of the environmental crisis
- to begin a broader conversation on the potential contribution of the Church to environmental questions

### **Video and PowerPoint Resources**

In teaching a class on strategy evaluation from a CST perspective, one needs to establish the limitations of the financial measures of performance. Indisputably, financial performance matters. But the growing emphasis on Corporate Social Responsibility reports and the Triple Bottom Line are in concert with CST. The accompanying PowerPoint file, “Evaluating Performance: CST & TBL,” is provided for teaching this material. The file establishes the limitations of financial measures, including that they:

- cannot focus management’s attention on all critical decisional areas
- are based on historical data and are backward looking
- do not assess innovation, customer value, employee value or corporate social responsibility

Triple Bottom Line (TBL) reporting is one option to address these shortcomings. Triple Bottom Line (Elkington, 1997) focuses on (1) Financial Performance, (2) Environmental Performance, and (3) Social Performance. It is sometimes referred to as the 3 P’s - People, Profit & Planet.

TBL is based on both quantitative and qualitative measures of performance but it too has limitations, including:

- some aspects of TBL are difficult to measure
- difficult to make valid comparisons between and among companies
- not enough hard data, a marketing/PR piece
- reports may not be externally audited and validated
- reports are not linked; financial performance and CSR reports are separate.

Eccles and Krzus (2010) have attempted to address many of these limitations in their “One Report” approach. The central message of their book, *One Report: Integrated Reporting for a Sustainable Strategy*, is that more integrated reporting of financial, environmental, social, and governance performance is essential. In most cases, there is very little linkage between information published in financial reports and CSR reports. To have a real impact, these separate reports need to be integrated with each other, thereby demonstrating that the company has a sustainable strategy based on a commitment to corporate social responsibility that is contributing to a sustainable society that takes into account the needs of all stakeholders, including but not limited to shareholders. A brief video from Eccles and Krzus explains why organizations should use integrated reporting.

<http://www.youtube.com/watch?v=PA38uzW6HUY>

### **Relevant Readings in CST**

See the following documents: John XXIII, *Mater et Magistra* 1961 [MM], John Paul II, *Laborem Exercens* (1981) [LE], *Centesimus Annus* (1991) [CA] and *Compendium of the Social Doctrine of the Church* [CSD], Francis, *Evangelium Gaudium*, 2013 [EG] as well as the U.S. Catholic Bishop’s Letter *Economic Justice for All* (1983) [EJA]. Many of these are available in D. O’Brien and T. Shannon, eds., *Catholic Social Thought: The Documentary Heritage* (Maryknoll, NY: Orbis Books, 2005).

### **Other Relevant Readings**

Arnold & Hartman, Worker Rights and Low Wage Industrialization: How to Avoid Sweatshops, *Human Rights Quarterly* 26 (2006), 676-700.

Arnold and Bowie, Sweatshops and Respect for Persons, *Business Ethics Quarterly*. 2003, Volume 13. Issue 2.

Bebchuk, Lucien, and Jesse Fried. 2004. *Pay Without Performance*. Cambridge, MA: Harvard University Press.

Bogle, John (2008). Reflections on CEO Compensation, *Academy of Management Perspectives*, May 2008, 21-25.

Duska, R. The Why's of Business Revisited, *Journal of Business Ethics*; Sept 1997; 16, 12/13

Freeman, R. Edward (2011). Managing for Stakeholders, in *Contemporary Issues in Business Ethics*, 6<sup>th</sup> edition, Joseph DesJardins and John McCall, eds. Belmont, CA: Wadsworth Publishing, 2014.

Fuller and Jensen, Just Say No to Wall Street: Courageous CEOs are putting a stop to the earnings game and we will all be better off for it, *Journal of Applied Corporate Finance*, Vol. 14, No. 4 (Winter 2002) pp. 41-46.

Gabaix, Xavier, and Augustin Landier. 2008. "Why Has CEO Pay Increased So Much?" *Quarterly Journal of Economics*. 123:1, 49.

Jensen, Michael. 2001. "Paying People to Lie." Harvard NOM Research Paper 01-03.

Kennedy, R. *The Good that Business Does*, Grand Rapids, MI: The Acton Institute, 2007.

McCall, John (2010). Executive Compensation, *Finance Ethics*, John Boatright, ed. Hoboken, NJ: John Wiley and Sons.

McCall, John and Patricia Werhane (2010). Employment at Will and Employee Rights, *Oxford Handbook of Business ethics*, T. Beauchamp and G. Brenkert, eds. New York, NY: Oxford University Press.

Mele, D. Exploring the Principle of Subsidiarity in Organisational Forms, *Journal of Business Ethics* (2005) 60: 293–305.

Pfeffer, J. Lay Off the Layoffs; Our overreliance on downsizing is killing workers, the economy- and even the bottom line, *Newsweek*. New York: Feb 15, 2010. Vol. 155, Issue 7.

Pfeffer, J. Building Sustainable Organizations: The Human Factor, *Academy of Management Perspectives*, Vol 24, No 1, February 2010.

Stout, Lynn. *The Shareholder Value Myth*, San Francisco, CA: Berrett-Koehler Publishers, Inc. (2012).

Wishloff, J. Catholic Social Thought and Business Ethics: The Application of 10 Principles, *Review of Business*; Winter 2004; 25, 1.

## Quotations from various encyclicals – ecology and environmental sustainability

Source: Catholic Social Teaching: Faith in a Better World,

<http://www.catholicsocialteaching.org.uk/themes/care-creation/resources/quotations-encyclicals-ecology-environmental-sustainability/>

37. Equally worrying is the ecological question which accompanies the problem of consumerism and which is closely connected to it. In his desire to have and to enjoy rather than to be and to grow, man consumes the resources of the earth and his own life in an excessive and disordered way. At the root of the senseless destruction of the natural environment lies an anthropological error, which unfortunately is widespread in our day. [Centesimus Annus](#) – “The One Hundredth Year” (1991)

37. Instead of carrying out his role as a co-operator with God in the work of creation, man sets himself up in place of God and thus ends up provoking a rebellion on the part of nature, which is more tyrannized than governed by him.... humanity today must be conscious of its duties and obligations towards future generations. [Centesimus Annus](#) – “The One Hundredth Year” (1991)

188. Truth to tell, we do not seem to be faced with any immediate or imminent world problem arising from the disproportion between the increase of population and the supply of food. Arguments to this effect are based on such unreliable and controversial data that they can only be of very uncertain validity. *Mater et Magistra* – “Mother and Teacher” (1961)

192. The only possible solution to this question is one which envisages the social and economic progress both of individuals and of the whole of human society, and which respects and promotes true human values. First consideration must obviously be given to those values which concern man’s dignity generally, and the immense worth of each individual human life. Attention must then be turned to the need for worldwide co-operation among men, with a view to a fruitful and well-regulated interchange of useful knowledge, capital and manpower. [Mater et Magistra](#) – “Mother and Teacher” (1961)

196. Genesis relates how God gave two commandments to our first parents: to transmit human life—”Increase and multiply” (44)—and to bring nature into their service—”Fill the earth, and subdue it.” (45) These two commandments are complementary. [Mater et Magistra](#) – “Mother and Teacher” (1961)

197. Nothing is said in the second of these commandments about destroying nature. On the contrary, it must be brought into the service of human life. [Mater et Magistra](#) – “Mother and Teacher” (1961)

198. We are sick at heart, therefore, when we observe the contradiction which has beguiled so much modern thinking. On the one hand we are shown the fearful specter of want and misery which threatens to extinguish human life, and on the other hand we find scientific discoveries, technical inventions and economic resources being used to provide terrible instruments of ruin and death. [Mater et Magistra](#) – “Mother and Teacher” (1961)

204. The result is a vast expenditure of human energy and natural resources on projects which are disruptive of human society rather than beneficial to it; while a growing uneasiness gnaws at men's hearts and makes them less responsive to the call of nobler enterprises. [\*Mater et Magistra\*](#) – “Mother and Teacher” (1961)

219. This teaching rests on one basic principle: individual human beings are the foundation, the cause and the end of every social institution. That is necessarily so, for men are by nature social beings. This fact must be recognized, as also the fact that they are raised in the plan of Providence to an order of reality which is above nature. [\*Mater et Magistra\*](#) - “Mother and Teacher” (1961)

226. It is not enough merely to formulate a social doctrine. It must be translated into reality. And this is particularly true of the Church's social doctrine, the light of which is Truth, Justice its objective, and Love its driving force. [\*Mater et Magistra\*](#) – “Mother and Teacher” (1961)

245. In Our paternal care as universal Pastor of souls, We earnestly beg Our sons, immersed though they be in the business of this world, not to allow their consciences to sleep; not to lose sight of the true hierarchy of values. [\*Mater et Magistra\*](#) – “Mother and Teacher” (1961)

48. In societies enjoying a higher level of consumer spending, it must be asked whether our life style exemplifies that sparing-ness with regard to consumption which we preach to others as necessary in order that so many millions of hungry people throughout the world may be fed. [\*Justicia in Mundo\*](#) – “Justice in the World” (1971)

47. our faith demands of us a certain sparing-ness in use, and the Church is obliged to live and administer its own goods in such a way that the Gospel is proclaimed to the poor. If instead the Church appears to be among the rich and the powerful of this world its credibility is diminished. [\*Justicia in Mundo\*](#) – “Justice in the World” (1971)

11. Furthermore, such is the demand for resources and energy by the richer nations, whether capitalist or socialist, and such are the effects of dumping by them in the atmosphere and the sea that irreparable damage would be done to the essential elements of life on earth, such as air and water, if their high rates of consumption and pollution, which are constantly on the increase, were extended to the whole of humanity. [\*Justicia in Mundo\*](#) – “Justice in the World” (1971)

70. (7) We consider that we must also stress the new worldwide preoccupation which will be dealt with for the first time in the conference on the human environment to be held in Stockholm in June 1972. It is impossible to see what right the richer nations have to keep up their claim to increase their own material demands, if the consequence is either that others remain in misery or that the danger of destroying the very physical foundations of life on earth is precipitated. Those who are already rich are bound to accept a less material way of life, with less waste, in order to avoid the destruction of the heritage which they are obliged by absolute justice to share with all other members of the human race. [\*Justicia in Mundo\*](#) – “Justice in the World” (1971)

34. Nor can the moral character of development exclude respect for the beings which constitute the natural world. The first consideration is the appropriateness of acquiring a growing

awareness of the fact that one cannot use with impunity the different categories of beings, whether living or inanimate – animals, plants, the natural elements – simply as one wishes, according to one's own economic needs. On the contrary, one must take into account the nature of each being and of its mutual connection in an ordered system, which is precisely the cosmos.”  
..natural resources are limited..... Using them as if they were inexhaustible, with absolute dominion, seriously endangers their availability not only for the present generation but above all for generations to come.... direct or indirect result of industrialization is, ever more frequently, the pollution of the environment, with serious consequences for the health of the population.  
*Sollicitudo rei Socialis* – “The Social Concern of the Church” (1987)