

Licensed to:



Business & Society

Ethics, Sustainability, and Stakeholder Management

8e

ARCHIE B. CARROLL / ANN K. BUCHHOLTZ

**Business & Society: Ethics,
Sustainability, and Stakeholder
Management, Eighth Edition**

Archie B. Carroll
Ann K. Buchholtz

Vice President of Editorial, Business: Jack
W. Calhoun

Editor-in-Chief: Melissa Acuna

Sr. Acquisitions Editor: Michele Rhoades

Developmental Editor: Suzanna
Bainbridge

Sr. Editorial Assistant: Ruth Belanger

Marketing Manager: Clinton Kernen

Sr. Content Project Manager: Kim
Kusnerak

Production Technology Analyst: Jeff
Weaver

Media Editor: Rob Ellington

Frontlist Buyer, Manufacturing: Arethea
Thomas

Sr. Marketing Communications Manager:
Jim Overly

Production Service/Compositor: MPS
Limited, a Macmillan Company

Sr. Art Director: Tippy McIntosh

Cover and Internal Designer: c miller
design

Cover Image: © Adam Niklewicz, Stock
Illustration Source

Rights Acquisitions Specialist/Images: John
Hill

Rights Acquisitions Specialist/Text: Mardell
Glinski Schultz

Image Permissions Researcher:
PreMediaGlobal

Text Permissions Researcher: Karyn
Morrison

© 2012, 2009 South-Western, Cengage Learning

ALL RIGHTS RESERVED. No part of this work covered by the copyright herein may be reproduced, transmitted, stored, or used in any form or by any means graphic, electronic, or mechanical, including but not limited to photocopying, recording, scanning, digitizing, taping, web distribution, information networks, or information storage and retrieval systems, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the publisher.

For product information and technology assistance, contact us at
Cengage Learning Customer & Sales Support, 1-800-354-9706

For permission to use material from this text or product, submit all
requests online at **www.cengage.com/permissions**

Further permissions questions can be emailed to
permissionrequest@cengage.com

ExamView® is a registered trademark of eInstruction Corp. Windows is a registered trademark of the Microsoft Corporation used herein under license. Macintosh and Power Macintosh are registered trademarks of Apple Computer, Inc. used herein under license.
© 2008 Cengage Learning. All Rights Reserved.

Cengage Learning WebTutor™ is a trademark of Cengage Learning.

Library of Congress Control Number: 2010939131

ISBN-13: 978-0-538-45316-5

ISBN-10: 0-538-45316-8

South-Western Cengage Learning

5191 Natorp Boulevard
Mason, OH 45040
USA

Cengage Learning products are represented in Canada by
Nelson Education, Ltd.

For your course and learning solutions, visit **www.cengage.com**
Purchase any of our products at your local college store or at our
preferred online store **www.cengagebrain.com**

Printed in the United States of America
1 2 3 4 5 6 7 15 14 13 12 11



1

The Business and Society Relationship

CHAPTER LEARNING OUTCOMES

After studying this chapter, you should be able to:

1. Characterize business and society and their interrelationships.
2. Describe pluralism and identify its attributes, strengths, and weaknesses.
3. Clarify how our pluralistic society has become a special-interest society.
4. Identify, discuss, and illustrate the factors leading up to business criticism.
5. Single out the major criticisms of business and characterize business's general response.
6. Explain the major themes of the book: managerial approach, ethics, sustainability, and stakeholder management.

For decades now, the business and society relationship has generated a number of economic, social, ethical, and environmental issues. Though the business system has served society well, criticism of business and its practices has become commonplace in recent years. Perhaps this is a reflection of the natural tendency to take for granted the beneficial aspects of the relationship and to spotlight the negative or stressful ones.

The modern period of business criticism began with a rash of scandals first brought to light in late 2001 and continues today in a different form. Initially, the Enron scandal was exposed when the firm filed for bankruptcy. Gradually, the degree of fraud impacting investors, employees, and others became known to the general public. The Enron scandal did not occur in isolation. Senior officers, banks, accountants, credit agencies, lawyers, stock analysts, and others were implicated in it. Eventually, 30 states had sided with Enron shareholders in their quest for damages from investment banks implicated due to their role in the accounting fraud. The argument was that the investment banks should be held liable as participants in the fraud.¹ In 2009, the lead investigator finally articulated some of the lasting lessons from the Enron scandal. One of his main conclusions was that the board of directors was not paying enough attention to what was going on.²

Scandals involving Arthur Andersen, WorldCom, Global Crossing, Tyco, and Adelphia all came to light throughout 2002. The Enron debacle was an ethical tsunami that redefined business's relationships with the world. In the first decade of the 2000s, other corporate names appeared in the news for committing alleged violations of the public trust or for raising questions regarding corporate ethics: Martha Stewart, Rite Aid, ImClone, HealthSouth, and Boeing are prominent examples. As *BusinessWeek*

observed, “Watching executives climb the courthouse steps became a spectator sport....”³

In the fall of 2008, another series of business humiliations, coupled with a collapsing U.S. stock market and worldwide recession, had a deeper and more far-reaching impact on the economy and began to raise questions about the future of the business system as we have known it. In what many have called the most serious financial collapse since the 1920s, this scandal centered on Wall Street and many of the major firms that historically had been the backbone of the U.S. financial system. As *Newsweek* pointed out, the epicenter of the financial crisis that brought about incalculable financial damage around the world was the Wall Street District and a handful of financial institutions located in what it called “the neighborhood that wrecked the world.”⁴

What caused the financial collapse and the ensuing economic chaos is still being debated to this day. Unarguably, the housing bubble burst and years of lax lending standards put big investment banks and Wall Street at the center of the collapse.⁵ Faced with an unprecedented financial crisis, the federal government got into the bailout business big-time as Congress approved a \$700 billion rescue plan⁶ for Wall Street financial firms, such as Merrill Lynch, Bear Stearns, Citigroup, Lehman Brothers, and AIG, and other notable industries, like the auto industry.

There was enough blame to go around for the financial crisis, and the finger-pointing continues to this day. Some of those named as guilty parties included greedy home buyers who took on more debt than they could handle; commission-hungry brokers; builders who conspired with crooked appraisers; and the Federal Reserve, which was accused of flooding the market with easy money.⁷ But most critics pointed to Wall Street and the businesses themselves as being central to the financial collapse. Others have claimed that the Wall Street firms were just doing what the capitalist system encourages and that it is actually capitalism itself that is behind the mess. Some claim the problem has been the era of deregulation begun back in the 1980s with President Ronald Reagan’s notion of “getting government off the backs of the people” and business, too. Congress has been accused of complacency in watching these developments occur.

At the same time as the financial crisis was unfolding, Barack Obama was elected the 44th president of the United States. As he took office in January 2009, it fell upon him to deal with the financial crisis as one of his first agenda items. In his inaugural address on January 20, 2009, President Obama declared, “Our economy is badly weakened, a consequence of greed and irresponsibility on the part of some but also our collective failure to make hard choices and prepare the nation for a new age.” He then called for a new “era of responsibility.”⁸ Throughout the president’s first year in office, the government increasingly got more deeply involved in the economic system, and the nature of the business and society relationship began changing. The business system and society suffered another major blow when the BP oil spill occurred in the spring of 2010. Called the worst environmental disaster in history, the ongoing challenges of the cleanup, dealing with ecological and business consequences, and assigning responsibility will take years to settle. It is against this backdrop, an era of considerable uncertainty, that we embark on our study of the respective roles of business and society in relation to the challenges facing companies and other organizations now and in the years ahead.

Aside from the financial crisis and the BP oil spill, and on a continuing basis, other serious questions arise about a host of other business issues: corporate governance, ethical conduct, executive compensation, the use of illegal immigrants as employees, fluctuating energy prices, government involvement in the economy, healthiness of fast food, international corruption, and so on. The litany of such issues could go on and on,

but these examples illustrate the enduring tensions between business and society, which can be traced to recent high-profile incidents, trends, or events.

Many other familiar issues carrying social or ethical implications continue to be debated within the business and society connection. Some of these issues have included moving businesses offshore, downsizing of pension programs, high unemployment, reduced health insurance benefits, sexual harassment in the workplace, abuses of corporate power, toxic waste disposal, insider trading, whistle-blowing, product liability, deceptive marketing, and questionable lobbying by business to influence the outcome of legislation. These examples of both specific corporate incidents and general issues are typical of the kinds of stories about business and society that one finds today in newspapers and magazines, and on television and the Internet. These concerns are illustrations of the widespread interactions and tensions between business and society that capture the headlines almost daily.

At the broadest level, we discuss the role of business in society. In this book, we will address many of these concerns—the role of business relative to the role of government in our socioeconomic system; what a firm must do to be considered socially responsible; what managers must do to be considered ethical; and what responsibilities companies have to consumers, employees, owners, and communities in an age of economic uncertainty and globalization. A new mandate for sustainability has captured the attention of business leaders, critics, and public policy makers.

We are now into the second decade of the new millennium, and many economic, legal, ethical, and technological issues concerning business and society continue to be debated. This period is turbulent and has been characterized by significant changes in the world, the economy, society, technology, and global relationships. Against this setting of ongoing flux in the business and society relationship, some basic concepts and ideas are worth considering.

Business and Society

This chapter introduces and discusses some basic concepts that are central to understanding the continuing business and society discussion. Among these concepts are pluralism, our special-interest society, business criticism, corporate power, and corporate social response to stakeholders. First, let us briefly define and explain two key terms: *business* and *society*.

Business: Defined

Business may be defined as the collection of private, commercially oriented (profit-oriented) organizations, ranging in size from one-person proprietorships (e.g., DePalma's Restaurant, Gibson's Men's Wear, and Taqueria la Parrilla) to corporate giants (e.g., Johnson & Johnson, GE, Coca-Cola, Delta Airlines, and UPS). Between these two extremes, of course, are many medium-sized proprietorships, partnerships, and corporations.

When we discuss business in this collective sense, we include businesses of all sizes and in all types of industries. However, as we embark on our discussion of business and society, we will often find ourselves speaking more of big business in selected industries. Big business is highly visible. Its products and advertising are more widely known. Consequently, it is more frequently in the critical public eye. People in our society often associate size with power, and the powerful are given closer scrutiny. Although it is well known that small businesses in our society far outnumber large ones, the pervasiveness, power, visibility, and impact of large firms keep them on the front page more of the time.

Some industries are simply more conducive than others with respect to the creation of visible, social problems. For example, many manufacturing firms by their nature cause air and water pollution. They contribute to climate changes. Such firms, therefore, are more likely to be subject to criticism than a life insurance company, which emits no obvious pollutant. The auto industry, most recently with the manufacture of sport utility vehicles (SUVs), is a particular case in point. Much of the criticism against General Motors (GM) and other automakers is raised because of their high visibility as manufacturers, the products they make (which are the largest single source of air pollution), and the popularity of their products (many families own one or more cars).

Some industries are highly visible because of the advertising-intensive nature of their products (e.g., Procter & Gamble, FedEx, Anheuser-Busch, and Home Depot). Other industries (e.g., the cigarette, toy, and fast food industries) are scrutinized because of the possible effects of their products on health or because of their roles in providing health-related products (e.g., pharmaceutical firms).

When we refer to business in its relationship with society, we focus our attention on large businesses in particular industries. However, we should not lose sight of the fact that small- and medium-sized companies also represent settings in which our discussions also apply.

Society: Defined

Society may be defined as a community, a nation, or a broad grouping of people with common traditions, values, institutions, and collective activities and interests. As such, when we speak of business and society relationships, we may in fact be referring to business and the local community (business and Atlanta), business and the United States as a whole, or business and a specific group of people (consumers, investors, minorities).

When we discuss business and the entire society, we think of society as being composed of numerous interest groups, more or less formalized organizations, and a variety of institutions. Each of these groups, organizations, and institutions is a purposeful aggregation of people who have united because they represent a common cause or share a set of common beliefs about a particular issue. Examples of interest groups or purposeful organizations are numerous: Friends of the Earth, Common Cause, chambers of commerce, National Association of Manufacturers, People for the Ethical Treatment of Animals (PETA), and Rainforest Action Network.

Society as the Macroenvironment

The environment of society is a key concept in analyzing business and society relationships. At its broadest level, the societal environment might be thought of as a **macroenvironment**, which includes the total environment outside the firm. The macroenvironment is the complete societal context in which the organization resides. The idea of the macroenvironment is just another way of thinking about society. In fact, early courses on business and society in business schools were sometimes (and some still are) titled “Business and Its Environment.” The concept of the macroenvironment evokes different images or ways of thinking about business and society relationships and is therefore useful in terms of framing and understanding the total business context.

A useful conceptualization of the macroenvironment is to think of it as being composed of four segments: social, economic, political, and technological.⁹

The **social environment** focuses on demographics, lifestyles, and social values of the society. Of particular interest here is the manner in which shifts in these factors affect the organization and its functioning. The influx of illegal immigrants over the

past several years has brought changes to the social environment. The **economic environment** focuses on the nature and direction of the economy in which business operates. Variables of interest include such indices as gross national product, inflation, interest rates, unemployment rates, foreign exchange fluctuations, national debt, global trade, balance of payments, and various other aspects of economic activity. In the past decade, hypercompetition and the global economy have dominated the economic segment of the environment. Businesses moving jobs offshore has been a controversial trend. Enduring levels of high unemployment have been particularly critical recently.

The **political environment** focuses on the processes by which laws get passed and officials get elected and all other aspects of the interaction between the firm, political processes, and government. Of particular interest to business in this segment are the regulatory process and the changes that occur over time in business regulation of various industries and various issues. The passage of the Sarbanes–Oxley Act continues to be a contentious issue to many businesses. Beginning in 2009, Congress ramped up its regulatory ambitions as it sought to improve the global economic system. Lobbying and political contributions are ongoing controversies. Finally, the **technological environment** represents the total set of technology-based advancements taking place in society. This segment includes new products, processes, materials, and means of communication, as well as the states of knowledge and scientific advancement. The process of technological change is of special importance here.¹⁰ In recent years, computer-based technologies and biotechnology have been driving this segment of environmental turbulence.

Thinking of business and society relationships embedded in a macroenvironment provides us with a constructive way of understanding the kinds of issues that constitute the broad milieu in which business functions. Throughout this book, we will see evidence of these turbulent environmental segments and will learn to appreciate what challenges managers face as they strive to develop effective organizations. Each of the many specific groups and organizations that make up our pluralistic society can typically be traced to one of these four environmental segments.

A Pluralistic Society

Our society's pluralistic nature makes for business and society relationships that are more dynamic and novel than those in some other societies. **Pluralism** refers to a diffusion of power among society's many groups and organizations. The following definition of a pluralistic society is helpful: "A pluralistic society is one in which there is wide decentralization and diversity of power concentration."¹¹

The key descriptive terms in this definition are *decentralization* and *diversity*. In other words, power is dispersed among many groups and people. It is not in the hands of any single institution (e.g., business, government, labor, or the military) or a small number of groups. Many years ago, in *The Federalist Papers*, James Madison speculated that pluralism was a virtuous scheme. He correctly anticipated the rise of numerous organizations in society as a consequence of it. Some of the virtues of a pluralistic society are summarized in Figure 1-1.

Pluralism Has Strengths and Weaknesses

All social systems have strengths and weaknesses. A pluralistic society prevents power from being concentrated in the hands of a few. It also maximizes freedom of expression and action. Pluralism provides for a built-in set of checks and balances so that no single group dominates. Nonetheless, a weakness of a pluralistic system is that it creates an environment in which diverse institutions pursue their own self-interests, with the result

FIGURE 1-1
The Virtues of a
Pluralistic Society

A pluralistic society...

- Prevents power from being concentrated in the hands of a few
- Maximizes freedom of expression and action and strikes a balance between monism (social organization into one institution), on the one hand, and anarchy (social organization into an infinite number of persons), on the other^a
- Is one in which the allegiance of individuals to groups is dispersed
- Creates a widely diversified set of loyalties to many organizations and minimizes the danger that a leader of any one organization will be left uncontrolled^b
- Provides a built-in set of checks and balances, in that groups can exert power over one another with no single organization (business or government) dominating and becoming overly influential

Sources: ^aKeith Davis and Robert L. Blomstrom, *Business and Society: Environment and Responsibility*, 3d ed. (New York: McGraw-Hill, 1975), 63.

^bJoseph W. McGuire, *Business and Society* (New York: McGraw-Hill, 1963), 132.

that there is no unified direction to bring together individual pursuits. Another weakness is that groups and institutions proliferate to the extent that their goals tend to overlap, thus causing confusion as to which organizations best serve which functions. Pluralism forces conflict onto center stage because of its emphasis on autonomous groups, each pursuing its own objectives. In light of these concerns, a pluralistic system does not appear to be very efficient.

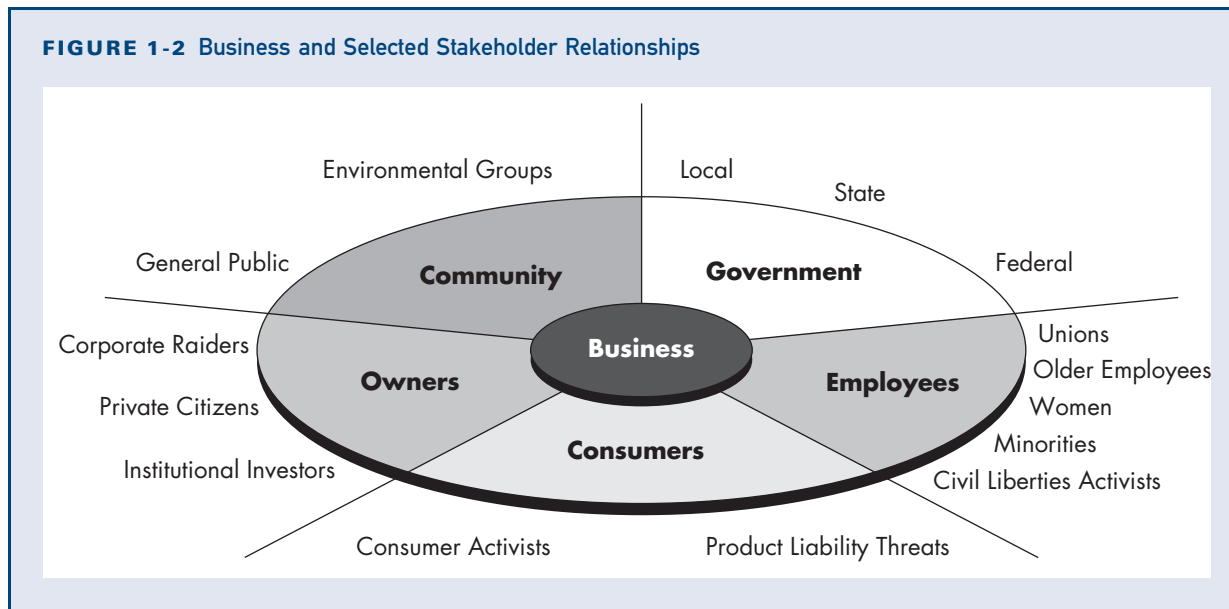
History and experience have demonstrated, however, that the merits of pluralism are considerable and that most people in society prefer the situation that has resulted from it. Indeed, pluralism has worked to achieve some equilibrium in the balance of power of the dominant institutions that constitute our society.

Multiple Publics, Systems, and Stakeholders

Knowing that society is composed of so many different semiautonomous and autonomous groups might cause one to question whether we can realistically speak of society in a definitive sense that has any generally agreed-upon meaning. Nevertheless, we do speak in such terms, knowing that, unless we specify a particular societal subgroup or subsystem, we are referring to all those persons, groups, and institutions that constitute our society. Thus, when we speak of business and society relationships, we usually refer either to particular segments or subgroups of society (consumers, women, minorities, environmentalists, senior citizens) or to business and some system in our society (politics, law, custom, religion, economics). These groups of people or systems may also be referred to in an institutional form (business and the courts, business and Common Cause, business and the church, business and the Federal Trade Commission).

Figure 1-2 depicts in graphic form the points of interface between business and some of the multiple publics, systems, or stakeholders with which business interacts. Stakeholders are those groups or individuals with whom an organization interacts or has interdependencies. We will develop the stakeholder concept further in Chapter 3. It should be noted that each of the stakeholder groups may be further subdivided into more specific subgroups.

If sheer numbers of relationships are an indicator of complexity, we could easily argue that business's current relationships with different segments of society constitute a truly complex social environment. If we had the capacity to draw a diagram similar to Figure 1-2 that displayed all the details composing each of those points of interface, it would be too complex



to comprehend. Today, managers cannot sidestep this problem, because management must live with these interfaces on a daily basis.

A Special-Interest Society

A pluralistic society often becomes a **special-interest society**. As the idea of pluralism is pursued to an extreme, a society is created that is characterized by tens of thousands of special-interest groups, each pursuing its own focused agenda. General-purpose interest organizations, such as Common Cause and the U.S. Chamber of Commerce, still exist. However, the past three decades have been characterized by increasing specialization on the part of interest groups representing all sectors of society—consumers, employees, investors, communities, the natural environment, government, and business itself. One newspaper headline noted that “there is a group for every cause.” Special-interest groups not only have grown in number at an accelerated pace, but also have become increasingly activist, intense, diverse, and focused on single issues. Such groups are increasingly committed to their causes.

The health care debate that began raging in the fall of 2009 illustrates how a pluralistic, special-interest society works. Consider that the following special-interest groups were all active and continued to be so in the fine-tuning of the health care legislation. The major interest groups included doctors, hospitals, drug companies, insurance companies, employers, insured people, seniors, and uninsured people.¹² Each of these groups has a lot at stake in resolving this society-level issue that has significant implications for many sectors, especially business. Though the health care law was passed in 2010, it will not be implemented immediately and many controversial details still have to be worked out.

The consequence of such specialization is that each of these groups has been able to attract a significant following that is dedicated to the group’s goals. Increased memberships have meant increased revenues and a sharper focus as each of these groups has aggressively sought its specific, narrow purposes. The likelihood of these groups working at cross-purposes and with no unified set of goals has made life immensely more complex for the

major institutions, such as business and government, that have to deal with them. But this is how a pluralistic society works.

Business Criticism and Corporate Response

It is inevitable in a pluralistic, special-interest society that the major institutions that make up that society, such as business and government, will become the subjects of considerable scrutiny and criticism. Our purpose here is not so much to focus on the negative as it is to illustrate how the process of business criticism has shaped the evolution of the business and society relationship today. Were it not for the fact that individuals and groups have been critical of business, we would not be dealing with this subject in a book or a course, and few changes would occur in the business and society relationship over time.

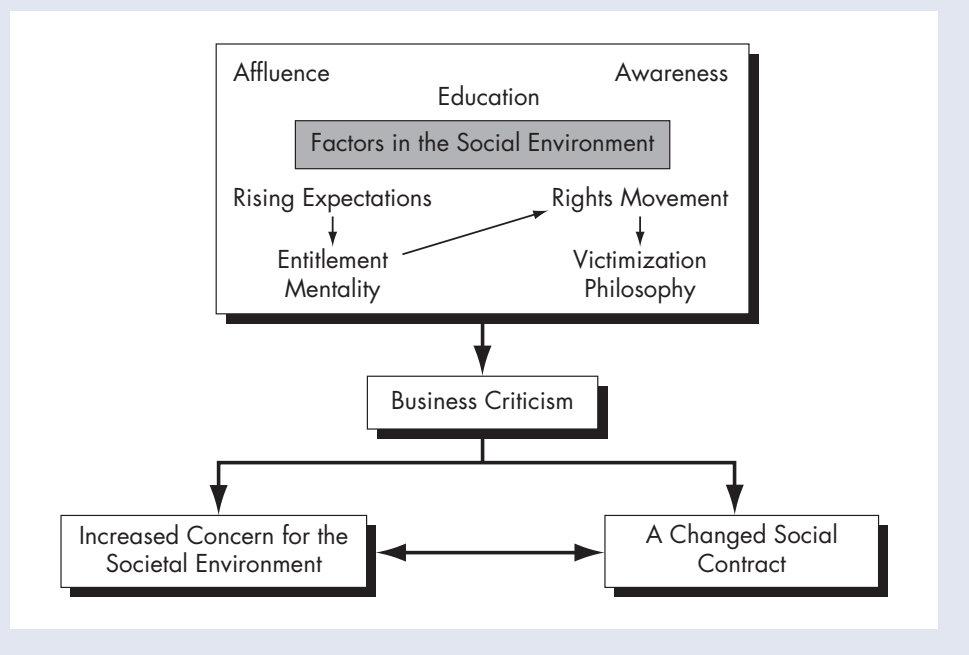
Figure 1-3 illustrates how certain factors that have arisen in the social environment have created an atmosphere in which business criticism has taken place and flourished. In this chapter, we describe the response on the part of business as an increased concern for the social environment and a changed social contract (relationship) between business and society. Each of these factors merits special consideration.

Factors in the Social Environment

Over the decades, many factors in the social environment have created a climate in which criticism of business has taken place and flourished. Some of these factors occur relatively independently, but some are interrelated. In other words, they occur and grow hand in hand.

Affluence and Education. Two factors that have developed side by side are affluence and education. As a society becomes more prosperous and better educated, higher expectations of its major institutions, such as business, naturally follow.

FIGURE 1-3
Social Environment
Factors, Business
Criticism, and
Corporate
Response



Affluence refers to the level of wealth, disposable income, and standard of living of the society. Measures of the U.S. standard of living indicate that it has been rising for decades, but leveling off during the past five years or so. A recent study has found that the rate at which an entire generation's lot in life improves relative to previous generations has slightly declined.¹³ In spite of these effects, overall affluence remains elevated, but this could change. This movement toward affluence is found in many of the world's developed countries and is also occurring in developing countries as global capitalism spreads. The current economic recession raises valid questions about continuing affluence, however.

Alongside a higher standard of living has been a growth in the average formal **education** of the populace. The U.S. Census Bureau reported that between 1970 and 2000, when the last census data were published, the number of American adults who were high school graduates grew from 55 percent to 83 percent, and the number who were college graduates increased from 11 percent to 24 percent. The 2010 census data, when available, may change these figures. As citizens continue to become more highly educated, their expectations of life generally rise. The combination of affluence and education has formed the underpinning for a society in which some criticism of major institutions, such as business, naturally arises.

Awareness through Television, Movies, and the Internet. Closely related to formal education is the broad and growing level of public awareness in our society. Although newspapers and magazines are read by a declining fraction of our population, more powerful media—television and movies—are accessed by virtually our entire society. Through television, the citizenry gets a profusion of information that contributes to a climate of business criticism. In recent years, especially, movies have bashed both the capitalist system and businesses. In addition, the Internet and mobile phone explosion has brought elevated levels of awareness in our country and around the world. Through e-mails, texting, blogs, and tweets, the average citizen is incredibly aware of what is going on in the world.

The prevalence and power of TV touches all socioeconomic classes. Several statistics document the extent to which our society is dependent on TV for information. According to data compiled by the ACNielsen company, the average daily time spent viewing television per household in 1950 was four and a half hours. Nielsen reports that now this figure has grown to over eight hours. A typical day for an American household now divides into three nearly equal parts: eight hours of sleep, eight hours of TV, and eight hours of work or school. Although the household average now exceeds eight hours, the average person watches over four hours per day.¹⁴ These figures are the highest in over 50 years.¹⁵ In the United States today, over 98 percent of homes have color TVs, and a great majority of Americans have two or more televisions. In developed countries around the world, these statistics are becoming more common. Television is indeed a pervasive and powerful medium in society.

24/7 NEWS AND INVESTIGATIVE NEWS PROGRAMS There are at least three ways in which information that leads to criticism of business appears on television. First, there are straight news shows, such as the ubiquitous 24-hour cable news channels, the evening news on the major networks, and investigative news programs. It is debatable whether or not the major news programs are treating business fairly, but in one major study conducted by Corporate Reputation Watch, senior executives identified media criticism, along with unethical behavior, as the biggest threats to a company's reputation. Reflecting on the lessons learned from high-profile cases of corporate wrongdoing, half the executives surveyed thought unethical behavior and media criticism were the biggest

threats to their corporate reputations.¹⁶ Coverage of Wall Street's complicity in the recent recession has been particularly damaging because it has called into question society's basic trust of corporate executives.

Business has to deal not only with the problems of 24/7 news coverage but also with a number of investigative news programs, such as *60 Minutes*, *20/20*, *Dateline NBC*, and PBS's *Frontline*, that seem to delight in exposés of corporate wrongdoings or questionable practices. Whereas the straight news programs make some effort to be objective, the investigative shows are tougher on business, tending to favor stories that expose the dark side of the enterprises or their executives. These shows are enormously popular and influential, and many companies squirm when their reporters show up on their premises complete with camera crews.

PRIME-TIME TELEVISION PROGRAMS The second way in which criticisms of business appear on TV is through prime-time programs. Television's depiction of businesspeople brings to mind the scheming oilman J.R. Ewing of *Dallas*, whose backstabbing shenanigans dominated prime-time TV for years (1978–1991) before it went off the air. More recently, the popular TV reality show *The Apprentice*, featuring billionaire businessman Donald Trump, depicted aspiring business executives in often questionable roles. More often than not, the businessperson has been portrayed across the nation's television screens as smirking, scheming, cheating, and conniving “bad guys.” A recent report released by the Business & Media Institute reported a study of the top 12 prime-time dramas in which 77 percent of the plots involving business were negative toward businesspeople. In this study, business characters committed almost as many serious felonies as drug dealers, child molesters, and serial killers combined. On one show, *Law & Order*, half of the felons were businesspeople.¹⁷ Some other TV shows where this negative portrayal has been evident include *CSI*, *Mad Men*, *Damages*, and *Criminal Minds*. Any redeeming social values that business and businesspeople may have rarely show up on television. Rather, businesspeople are often cast as evil and greedy social parasites whose efforts to get more for themselves are justly condemned and usually thwarted.¹⁸ There are many views as to why this portrayal has occurred. Some would argue that business is being characterized accurately. Others say that the television writers are dissatisfied with the direction our nation has taken and believe they have an important role in reforming American society.¹⁹

COMMERCIALS A third way in which television contributes to business criticism is through commercials. This may be business's own fault. To the extent that business does not honestly and fairly portray its products and services on TV, it undermines its own credibility. Commercials are a two-edged sword. On the one hand, they may sell more products and services in the short run. On the other hand, they could damage business's long-term credibility if they promote products and services deceptively. According to RealVision, an initiative to raise awareness about television's impact on society, TV today promotes excessive commercialism as well as sedentary lifestyles.²⁰ In three specific TV settings—news coverage, prime-time programming, and commercials—a strained environment is fostered by this “awareness” factor made available through the power and pervasiveness of television.

MOVIES Movies are also a significant source of business criticism. Hollywood seems to see corporations as powerful, profit-seeking enterprises that have no redeeming values. The Oscar-winning movie *Avatar*, along with *Up in the Air*, portrays corporations as greedy, cruel, and destructive. Michael Moore's documentary, *Capitalism: A Love Story*, slams the free enterprise system as corrupt and doomed. Other recent movies to stigmatize the business system include *The Informant*, *The International*, *Syriana*, and

Duplicity. In these movies, corporate life is depicted as amoral, at best, and possibly deadly. In 2010, the sequel to *Wall Street* was released—*Wall Street: Money Never Sleeps*—with Michael Douglas playing again the evil Gordon Gekko. Gekko is released from 14 years in prison just in time to witness the financial system’s collapse and to visit his old ways. Hollywood writers seem to love advancing the “greed is good” portrayal of business, and they go out of their way to perpetuate this image of the corporate community.²¹

We should make it clear that the media are not to blame for business’s problems. If it were not for the fact that the behavior of some businesses is questionable, the media would not be able to create such an environment. The media makes the public more aware of questionable practices and should be seen as only one key factor that contributes to the environment in which business now finds itself.

Revolution of Rising Expectations. In addition to affluence, formal education, and awareness through television and the Internet, other societal trends have fostered the climate in which business criticism has occurred. Growing out of these factors has been a **revolution of rising expectations** held by many. This is defined as a belief or an attitude that each succeeding generation ought to have a standard of living higher than that of its predecessor. A recent Pew Charitable Trust study has revealed that, according to census data, today this is more of a dream than a reality. The median income for men has declined slightly over the past 20 years, but household incomes remain high due to the number of women now working full-time.²² And, of course, the recent economic recession has moderated these rising expectations. A continuing unemployment crisis has been hitting many people very hard, and some writers have been asking if we have now reached the “end of prosperity.” *The Wall Street Journal/NBC News* survey data reported in December 2009 revealed eroding confidence in the belief that the next generation will be better off than the current one. This decline in confidence continued between 2001 and 2009.²³

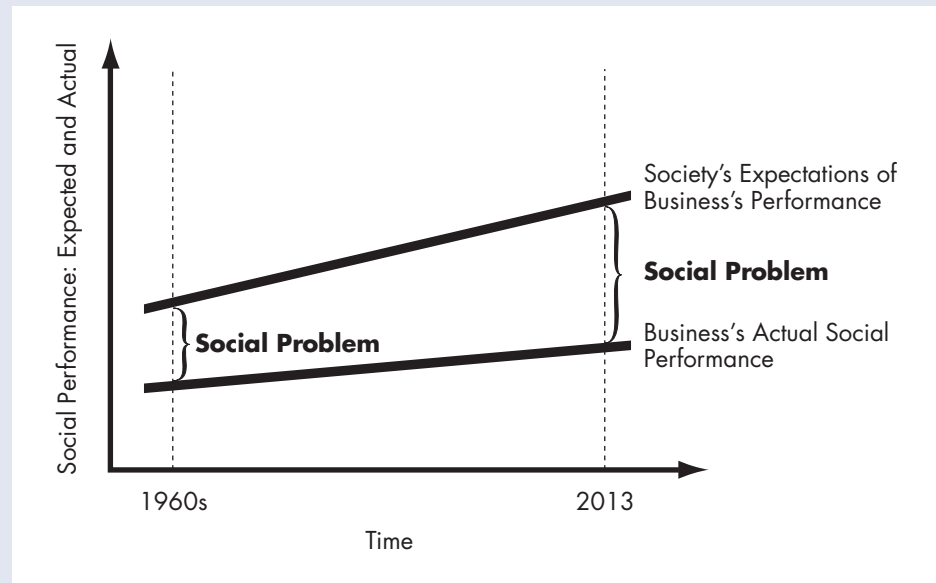
If rising expectations do continue, people’s hopes for major institutions, such as business, should be greater too. Building on this line of thinking, it could be argued that business criticism is evident today because society’s rising expectations of business’s social performance have outpaced business’s ability to meet these growing expectations. To the extent that this has occurred over the past 25 years, business finds itself with a larger social problem.²⁴

A **social problem** has been described as a gap between society’s expectations of social conditions and the current social realities.²⁵ From the viewpoint of a business firm, the social problem is experienced as the gap grows between society’s *expectations* of the firm’s social performance and its *actual* social performance. Rising expectations typically outpace the responsiveness of institutions such as business, thus creating a constant predicament in that it is subject to criticism. Figure 1-4 illustrates the larger “social problem” that business faces today. It is depicted by the “gap” between society’s expectations of business and business’s actual social performance.

Although the general trend of rising expectations may continue, the revolution moderates at times when the economy is not as robust. Historically, job situations, health, family lives, and overall quality of life continue to improve, though the effect of the recession makes their future hard to predict. The persistence of social problems such as crime, poverty, homelessness, unemployment, AIDS, environmental pollution, alcohol and drug abuse, and, now, terrorism and potential pandemics such as bird flu are always there to moderate rising expectations.²⁶

Entitlement Mentality. One notable outgrowth of the revolution of rising expectations has been the development of an **entitlement mentality**. Several years ago, the

FIGURE 1-4
Society's Expectations versus
Business's Actual
Social Performance



Public Relations Society conducted a study of public expectations, with particular focus on public attitudes toward the philosophy of entitlement. The entitlement mentality is the general belief that someone is owed something (e.g., a job, an education, a living wage, or health care) just because she or he is a member of society. The survey was conducted on a nationwide basis, and a significant gap was found between what people thought they were entitled to have and what they actually had—a steadily improving standard of living, a guaranteed job for all those willing and able to work, and products certified as safe and not hazardous to one's health.²⁷

As we are into the second decade of the 2000s, jobs, fair wages, insurance, retirement programs, and health care continue to be issues on which entitlement thinking has centered. Each of these has significant implications for business when “entitlements” are not received.

Rights Movement. The revolution of rising expectations, the entitlement mentality, and all of the factors discussed so far have contributed to what has been termed the **rights movement** that has been evident in society for several decades now. The Bill of Rights was attached to the U.S. Constitution almost as an afterthought and was virtually unused for more than a century. But in the past several decades, and at an accelerating pace, the U.S. Supreme Court has heard large numbers of cases aimed at establishing for some groups various legal rights that perhaps never occurred to the founders of our nation.²⁸

Some of these rights, such as the right to privacy and the right to due process, have been perceived as generic for all citizens. However, in addition to these generalized rights, there has been activism for rights for particular groups in society. This modern movement began with the civil rights cases of the 1950s. Many groups have been inspired by the success of African-Americans and have sought progress by similar means. Thus, we have seen the protected status of minorities grow to include Hispanic Americans, Asian-Americans, Native Americans, women, the disabled, the aged, and

other groups. At various levels—federal, state, and local—we have seen claims for the rights of gays, smokers, nonsmokers, obese persons, AIDS victims, convicted felons, and illegal immigrants, just to mention a few.

There seems to be no limit to the numbers of groups and individuals seeking “rights” in our society. Business, as one of society’s major institutions, has been affected with an ever-expanding array of expectations as to how people want to be treated, not only as employees but also as owners, consumers, environmentally conscious citizens, and members of the community. The “rights” movement is interrelated with the special-interest society discussed earlier and sometimes follows an “entitlement” mentality among some people and within some sectors of society.

John Leo, a columnist for *U.S. News & World Report*, has argued for a moratorium on new rights.²⁹ He has argued that “freshly minted” rights are too common these days. Leo said that one cannot help but speculate what challenges business will face when every “goal, need, wish, or itch” is more and more framed as a right.³⁰

Victimization Philosophy. It has become apparent during the past 20 years or so that there are growing numbers of individuals and groups who see themselves as having been victimized by society. The *New York* magazine featured a cover story on “The New Culture of Victimization,” with the title “Don’t Blame Me!”³¹ *Esquire* probed what it called “A Confederacy of Complainers.”³² Charles Sykes published *A Nation of Victims: The Decay of the American Character*.³³ Sykes’s thesis, with which these other observers would agree, is that the United States is fast becoming a “society of victims.”

What is particularly interesting about the novel **victimization philosophy** is the widespread extent to which it is dispersing in the population. According to these writers, the victim mentality is just as likely to be seen among all groups in society—regardless of race, gender, age, or any other classification. Sykes observed that previous movements may have been seen as a “revolution of rising expectations,” whereas the victimization movement might be called a “revolution of rising sensitivities” in which grievance begets grievance.

In such a society of victims, feelings rather than reason prevail, and people start perceiving that they are being unfairly “hurt” by society’s institutions—government, business, and education. The philosophy of victimization is intimately related to and sometimes inseparable from the rights movement and the entitlement mentality. Taken together, these new ways of viewing one’s plight—as someone else’s unfairness—may pose special challenges for business managers in the future.

In summary, affluence and education, awareness through television, the revolution of rising expectations, an entitlement mentality, the rights movement, and the victimization philosophy have formed a backdrop against which criticism of business has grown and flourished. This helps explain why we have an environment that is so conducive to criticism of business. Though the U.S. economy is in its worst economic slump since World War II as this is being written, some of these same general trends are bound to continue but be moderated in the next several years. In the next two subsections, we will explore what some of the criticisms of business have been, and we will discuss some of the general responses to such criticisms.

Criticisms of Business: Use and Abuse of Power

Many criticisms have been directed toward business over the years: Business is too big, it is too powerful, it pollutes the environment and exploits people for its own gain, it takes advantage of workers and consumers, it does not tell the truth, its executives are too highly paid, and so on. If one were to identify a common thread that seems to run through all the complaints, it seems to be business’s use and perceived abuse of power. This is an issue that

will not go away. In a cover story article, *BusinessWeek* posed the question: “Too Much Corporate Power?” In this feature article, the magazine presented its surveys of the public regarding business power. Most Americans are willing to acknowledge that Corporate America gets much credit for the good fortunes of the country. In spite of this, 72 percent said business has too much power over too many aspects of their lives.³⁴ In another issue, *BusinessWeek* ran a similar cover story; this time it asked, “Is Wal-Mart Too Powerful?”³⁵ In Michael Moore’s 2009 movie, *Capitalism: A Love Story*, the filmmaker continued his assault on business power by laying the blame for the worldwide recession on both big business and government. Whether at the general level or the level of the firm, questions about business’s power continue to be raised.

Some of the points of friction between business and the public, in which corporate power is identified as partially the culprit, include such topics as corporate governance, CEO pay, investor losses, wholesale job losses, outsourcing jobs, mounting anger and frustration over health care, drug and gas prices, poor airline service, HMOs that override doctors’ decisions, in-your-face marketing, e-mail spam, globalization, corporate bankrolling of politicians, sweatshops, urban sprawl, and low wages. Before discussing business power in more detail, we should note that in addition to the use or abuse of power, the major criticism seems to be that business often engages in questionable or unethical behavior with respect to its stakeholders.

What is **business power**? Business power refers to the ability or capacity to produce an effect or to bring influence to bear on a situation or people. Power, in and of itself, may be either positive or negative. In the context of business criticism, however, power typically is perceived as being abused. Business certainly does have enormous power, but whether it abuses power is an issue that needs to be carefully examined. We will not settle this issue here, but the allegation that business abuses power remains the central theme behind the details.

Levels of Power. Business power exists at and may be manifested at several different levels. Four such levels include the macrolevel, the intermediate level, the microlevel, and the individual level.³⁶ The *macrolevel* refers to the corporate system—Corporate America—the totality of business organizations. Power here emanates from the sheer size, resources, and dominance of the corporate system. As the corporate system has become more global, its impact has become more far reaching as well. The *intermediate level* refers to groups of corporations acting in concert in an effort to produce a desired effect—to raise prices, control markets, dominate purchasers, promote an issue, or pass or defeat legislation. Prime examples are OPEC (gas prices), airlines, cable TV companies, banks, pharmaceutical companies, and defense contractors pursuing interests they have in common. The combined effect of companies acting in concert is considerable. The *microlevel* of power is the level of the individual firm. This might refer to the exertion of power or influence by any major corporation—Google, Walmart, Microsoft, Nike, Procter & Gamble, or Johnson & Johnson, for example. The final level is the *individual level*. This refers to the individual corporate leader exerting power—for example, Andrea Jung (Avon), Steve Jobs (Apple), Jeffrey Immelt (GE), Bill Gates (Microsoft), Tiger Woods (Tigerwoods.com), or Anne Mulcahy (Xerox).

The important point here is that as one analyzes corporate power, one should think in terms of the different levels at which that power is manifested. When this is done, it is not easy to conclude whether corporate power is excessive or has been abused. Specific levels of power need to be examined before conclusions can be reached.

Spheres of Power. In addition to levels of power, there are also many different spheres or arenas in which business power may be manifested. Figure 1-5 depicts one

Text not available due to copyright restrictions

CENGAGE **brain**.com

way of looking at the four levels identified and some of the spheres of power that also exist. *Economic power* and *political power* are two spheres that are referred to often, but business has other, more subtle forms of power as well. These other spheres include *social and cultural power*, *power over the individual*, *technological power*, and *environmental power*.³⁷

Is the power of business excessive? Does business abuse its power? Apparently, many people think so. To provide sensible and fair answers to these questions, however, one must carefully specify which level of power is being referred to and in which sphere the power is being exercised. When this is done, it is not simple to arrive at answers that are generalizable.

Furthermore, the nature of power is such that it is sometimes wielded unintentionally. Sometimes it is consequential; that is, it is not wielded intentionally, but nevertheless exerts its influence even though no attempt is made to exercise it.³⁸

Balance of Power and Responsibility. Whether or not business abuses its power or allows its use of power to become excessive is a central issue that cuts through all the topics we will be discussing in this book. But power should not be viewed in isolation from responsibility, and this power–responsibility relationship is the foundation of calls for corporate social responsibility. The **Iron Law of Responsibility** is a concept that

FIGURE 1-5 Levels and Spheres of Corporate Power

Levels Spheres	Macrolevel (the business system)	Intermediate Level (several firms)	Microlevel (single firm)	Individual Level (single executive)
Economic				
Social/Cultural				
Individual				
Technological				
Environmental				
Political				

addresses this: “In the long run, those who do not use power in a manner which society considers responsible will tend to lose it.”³⁹ Stated another way, whenever power and responsibility become substantially out of balance, forces will be generated to bring them into closer balance.

When power gets out of balance, a variety of forces come to bear on business to be more responsible and more responsive to the criticisms being made against it. Some of these more obvious forces include governmental actions, such as increased regulations and new laws. The investigative news media become interested in what is going on, and a whole host of special-interest groups bring pressure to bear. In the *BusinessWeek* cover story cited earlier, the point was made that “it’s this power imbalance that’s helping to breed the current resentment against corporations.”⁴⁰

The tobacco industry is an excellent example of an industry that has felt the brunt of efforts to address allegations of abuse of power. Complaints that the industry produces a dangerous, addictive product and markets that product to young people have been made for years. The U.S. Food and Drug Administration (FDA) tried to assert jurisdiction over cigarettes and has been trying to rein in tobacco companies through aggressive regulation. One major outcome of this effort to bring the tobacco industry under control was a \$368-billion settlement, to be paid over 25 years, in which the tobacco firms settle lawsuits against them, submit to new regulations, and meet strict goals for reducing smoking in the United States. Although the industry continues to fight these measures, as it always has, it is expected that by the year 2022 tobacco’s role in American society will be forever reduced.⁴¹

In 2002, the U.S. Congress quickly passed the Sarbanes–Oxley Act, which was designed to rein in the power and abuse that were manifested in such scandals as Enron, WorldCom, Arthur Andersen, and Tyco. Executives have been grumbling that the new law is costly, cumbersome, and redundant, but this illustrates what happens when power and responsibility get out of balance.⁴² Congress passed the bill to moderate business’s power and bring about greater accountability. Companies continue to lobby

Congress to amend the Sarbanes–Oxley Act to make it less strict. More recently, Congress has begun passing new laws affecting the financial services industry. Legislation targeted toward reining in credit card companies is a case in point, and this will be discussed further in later chapters.

Business Response: Concern and Changing Social Contract

Growing out of criticisms of business and the idea of the power–responsibility equation has been an increased concern on the part of business for the stakeholder environment and a changed social contract. We previously indicated that the social environment was composed of such factors as demographics, lifestyles, and social values of the society. It may also be seen as a collection of conditions, events, and trends that reflect how people think and behave and what they value. As firms have sensed that the social environment and the expectations of business are changing, they have realized that they must change, too.

One way of thinking about the business–society relationship is through the concept of **social contract**. This is a set of two-way understandings that characterize the relationship between major institutions—in our case, business and society. The social contract is changing, and this change is a direct outgrowth of the increased importance of the social environment. The social contract has been changing to reflect society’s expanded expectations of business, especially in the social, ethical, and environmental realms.

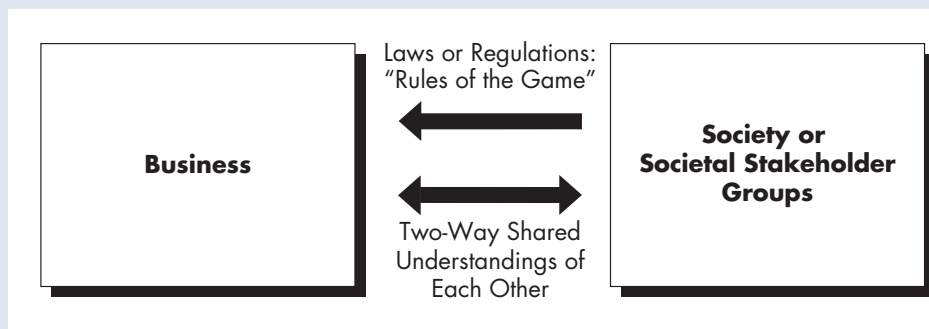
The social contract between business and society, as illustrated in Figure 1-6, is partially articulated through:

1. *Laws and regulations* that society has established as the framework within which business must operate and
2. *Shared understandings* that evolve over time as to each group’s expectations of the other.

Laws and regulations spell out the “rules of the game” for business. Shared understandings, on the other hand, are more subtle and create room for misunderstandings. These shared understandings reflect mutual expectations regarding each other’s roles, responsibilities, and ethics. These unspoken components of the social contract represent what might be called the normative perspective on the relationship (i.e., what “ought” to be done by each party to the social contract).⁴³

A parallel example to the business and society social contract may be seen in the relationship between a professor and the students in his or her class. University regulations and the course syllabus spell out the formal “laws and regulations” aspects of the

FIGURE 1-6
Elements in the
Social Contract



relationship. The shared understandings address those expectations that are generally understood but not necessarily spelled out formally. An example might be “fairness.” The student expects the professor to be “fair” in making assignments, in the level of work expected, in grading, and so on. Likewise, the professor expects the student to be fair in evaluating him or her on course evaluation forms, to be fair by not passing off someone else’s work as his or her own, and so on.

An editorial from *BusinessWeek* on the subject of social contract summarizes well the modern era of business and society relationships:

*Today it is clear that the terms of the contract between society and business are, in fact, changing in substantial and important ways. Business is being asked to assume broader responsibilities to society than ever before, and to serve a wider range of human values.... Inasmuch as business exists to serve society, its future will depend on the quality of management’s response to the changing expectations of the public.*⁴⁴

Another *BusinessWeek* editorial commented on the new social contract by saying, “Listen up, Corporate America. The American people are having a most serious discussion about your role in their lives.” The editorial was referring to the criticisms coming out in the early 2000s about the abuse of corporate power.⁴⁵ Such a statement suggests that we will continually witness changes in the social contract between business and society.

ETHICS IN PRACTICE CASE

Donations for Profit

While working as the director of junior golf at a Nashville area golf course, I was put in charge of fund-raising. This task required me to spend numerous hours calling and visiting local businesses, seeking their donations for our end-of-the-summer golf tournament. After weeks of campaigning for money, I was pleased to have raised \$3,000 for the tournament. The money was intended to be used for prizes, food, and trophies for the two-day Tournament of Champions.

I notified the golf course manager of my intentions to spend the money at a local golf store to purchase prizes for the participants. Upon hearing of my decision to spend all of the contribution money on the tournament, my manager asked me to spend only \$1,500. I was confused by this request because I had encouraged various companies to contribute by telling them that their money would all be spent on the children registered in the tournament. My manager, however, told me that the golf course would pocket the other \$1,500 as pure profit. He said the economy has been struggling and that the course could use any extra money to boost profits.

I was deeply angered that I had given my word to these companies and now the golf course was going to pocket half the donations. Feeling that my manager was in the wrong, I went to him again, this time with an ultimatum. Either the money was to be spent entirely on the tournament, or I would return all of the checks personally, citing my manager’s plan as the reason. In response, he said that I could spend the money any way I desired, but he would appreciate it if I were frugal with the money. I spent it all.

1. Was my manager wrong in seeking to pocket half the donation money as profit? Does it make any difference that the golf course was experiencing perilous economic times? (After all, if the course goes out of business, tournaments cannot be held at all.)
2. Was I right in challenging my manager? Should I have handled this differently?
3. Do you think the companies would have felt cheated if the golf course had pocketed half their donations?

Contributed by Eric Knox

Focus of the Book

This book takes a **managerial approach** to the business and society relationship. This managerial approach emphasizes three main themes that are important to managers today: **business ethics**, **sustainability**, and **stakeholder management**. First, let us discuss the managerial approach.

Managerial Approach

Managers are practical, and they have begun to deal with social and ethical concerns in ways similar to those they have used to deal with traditional business functions—marketing, finance, operations, and so forth—in a rational, systematic, and administratively sound fashion. By viewing issues of social and ethical concern from a managerial frame of reference, managers have been able to reduce seemingly unmanageable concerns to ones that can be dealt with in a balanced and evenhanded fashion. At the same time, managers have had to integrate traditional economic and financial considerations with ethical and social considerations.

A managerial approach to the business and society relationship confronts the individual manager continuously with questions such as:

- What changes are occurring or will occur in society's expectations of business that mandate business's taking the initiative with respect to particular societal or ethical problems?
- Did business, in general, or our firm, in particular, have a role in creating these problems?
- Can we reduce broad social problems to a size that can be effectively addressed from a managerial point of view?
- What are the specific problems, alternatives for solving these problems, and implications for management's approach to dealing with social issues?
- How can we best plan and organize for responsiveness to socially related business problems?

Urgent versus Enduring Issues. From the standpoint of urgency in managerial response, management is concerned with two broad types or classes of social issues. First, there are those issues or crises that arise instantaneously and for which management must formulate relatively quick responses. A typical example might be a protest group that shows up on management's doorstep one day, arguing vehemently that the company should withdraw its sponsorship of a violent television show scheduled to air the next week. Or a crisis could occur with respect to a company's products or services.

Second, there are issues or problems that management has time to deal with on a more long-term basis. These issues include product safety, environmental pollution, sustainability, employment discrimination, and occupational safety and health. In other words, these are enduring issues that will be of concern to society on a continuing basis and for which management must develop a thoughtful organizational response. Management must thus be concerned with both short-term and long-term capabilities for dealing with social problems and the organization's social performance.

The test of success of the managerial approach will be the extent to which leaders can improve an organization's social and ethical performance by taking a managerial approach rather than dealing with issues and crises on an ad hoc basis. Such a managerial approach will require balancing the needs of urgency with the careful response to enduring issues.

Business Ethics Theme

The managerial focus attempts to take a practical look at the social issues and expectations business faces, but ethical questions inevitably and continually come into play. **Ethics** basically refers to issues of right, wrong, fairness, and justice, and business ethics focuses on ethical issues that arise in the commercial realm. Ethical factors appear throughout our discussion because questions of right, wrong, fairness, and justice, no matter how slippery they are to deal with, permeate business's activities as it attempts to interact successfully with major stakeholder groups: employees, customers, owners, government, and the global and local communities. In light of the ethical scandals in recent years, especially the role of the financial services industry in the Wall Street collapse beginning in the fall of 2008, the ethics theme resonates as one of the most urgent dimensions of business and society relationships.

The principal task of management is not only to deal with the various stakeholder groups in an ethical fashion, but also to reconcile the conflicts of interest that occur between the organization and the stakeholder groups. Implicit in this challenge is the ethical dimension that is present in practically all business decision making where stakeholders are concerned. In addition to the challenge of treating fairly the groups with which business interacts, management faces the equally important task of creating an organizational climate in which all employees make decisions with the interests of the public, as well as those of the organization, in mind. At stake is not only the reputation of the firm but also of the business community in general.

Sustainability Theme

Over the past decade, the concept of sustainability has become one of businesses' most pressing mandates. Discussions of sustainability began with respect to the natural environment. As time has passed, however, it has become evident that it is a broader concept that applies not only to the natural environment but to the entirety of businesses' existence and processes as well, especially business's global role and development. At a fundamental level, sustainability is just about business's ability to survive and thrive over the long term.⁴⁶ The concept of sustainability is derived from the notion of sustainable development, which is a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present but also for future generations. The term sustainability was used by the Brundtland Commission, which coined what has become the most often-quoted definition of sustainable development as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs."⁴⁷ Today, sustainability is thought to embrace environmental, economic, and social criteria, and this is the sense in which it will be used in this book. Thus, discussions of sustainability and its implications will appear in many chapters, not just in the chapter on the natural environment.

Stakeholder Management Theme

As we have suggested throughout this chapter, **stakeholders** are individuals or groups with which business interacts and who have a "stake," or vested interest, in the firm. They could be called "publics," but this term may imply that they are outside the business sphere and should be dealt with as external players rather than as integral constituents of the business and society relationship.

We consider two broad groups of stakeholders in this book—internal and external. Owners, as internal stakeholders, are considered early on. Though all chapters touch on the stakeholder management theme, Chapter 4 specifically addresses the topic of corporate governance, in which owner stakeholders are represented by boards of directors.

Spotlight on SUSTAINABILITY

What Is Sustainability?

- Sustainability is...providing for the needs of the present generation while not compromising the ability of future generations to meet theirs (*original definition in the U.N. Brundtland Commission Report on "Our Common Future," 1987*).
- Sustainability is...creating shareholder and social value while decreasing the environmental footprint along the value chains in which we operate (*DuPont*).
- Sustainability is generally considered to have three interdependent, coevolutionary dimensions: the economy, the society, and the natural environment (*Jean Garner Stead and W. Edward Stead, Management for a Small Planet, 3d Ed., 2009*).
- Corporate sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental, and social developments (*3BL Media, 2009*).
- A sustainable society is one that satisfies its needs without diminishing the prospects of future generations (*Lester R. Brown, Founder and President, Worldwatch Institute*).

Later, we consider *external stakeholders*, which include government, consumers, the natural environment, and community members. Domestic and global stakeholders are major concerns. We treat government first because it represents the public. It is helpful to understand the role and workings of government to best appreciate business's relationships with other groups. Consumers may be business's most important stakeholders. Members of the community are crucial, too, and they are concerned about a variety of issues. One of the most important is the natural environment. All these issues have direct effects on the public.

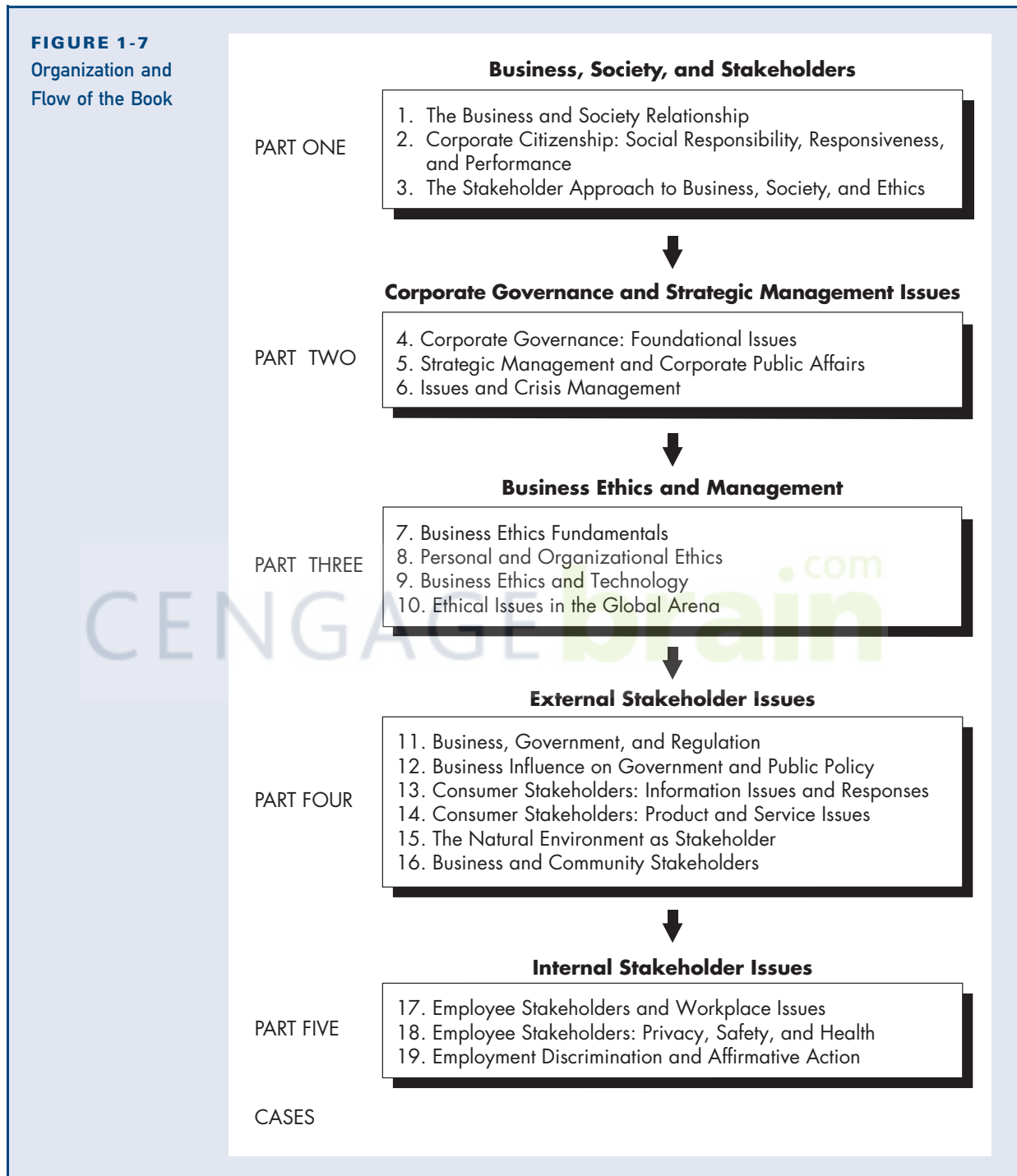
The second broad grouping of stakeholders is *internal stakeholders*. Business owners are treated in our discussion of corporate governance, but then later in the book, employees are addressed as the principal group of internal stakeholders. We live in an organizational society, and many people think that their roles as employees are just as important as their roles as investors or owners. Both of these groups have legitimate legal and moral claims on the organization, and the management's task is to address their needs and balance these needs against those of the firm and of other stakeholder groups. We will develop the idea of stakeholder management more fully in Chapter 3.

Structure of the Book

The structure of this book is outlined in Figure 1-7 on page 25.

In Part 1, "Business, Society, and Stakeholders," there are three chapters. Chapter 1 provides an overview of the business and society relationship. Chapter 2 covers corporate citizenship: social responsibility, responsiveness, and performance. Chapter 3 addresses stakeholder management. These chapters provide a crucial foundation for understanding all of the discussions that follow. They provide the context for the business and society relationship.

Part 2 is titled "Corporate Governance and Strategic Management Issues." Chapter 4 covers the highly relevant topic of corporate governance, which has become more prominent during the past decade. The next two chapters address management-related topics. Chapter 5 covers strategic management and corporate public affairs. Chapter 6 addresses issues management and crisis management.



Part 3, “Business Ethics and Management,” focuses exclusively on business ethics. Business ethics fundamentals are established in Chapter 7, and personal and organizational ethics are discussed further in Chapter 8. Chapter 9 addresses business ethics and technology. Chapter 10 treats business ethics in the global or international sphere.

Although ethical issues cut through and permeate virtually all discussions in the book, this dedicated treatment of business ethics is warranted by a need to explore in added detail the ethical dimension in management.

Part 4, “External Stakeholder Issues,” deals with the major external stakeholders of business. Because government is such an active player in all the groups to follow, in Chapter 11 we consider business–government relationships and government regulations. In Chapter 12, we discuss how business endeavors to shape and influence government and public policy. Chapters 13 and 14 address consumer stakeholders. Chapter 15 addresses sustainability and the natural environment as stakeholder. Chapter 16 addresses business and community stakeholder issues, including corporate philanthropy.

Part 5, “Internal Stakeholder Issues,” addresses employees as the sole stakeholders because the treatment of owner stakeholders is discussed in Part 2. Chapter 17 examines employees and major workplace issues. Chapter 18 looks carefully at the issues of employee privacy, safety, and health. In Chapter 19, we focus on the special case of employment discrimination.

Depending on the emphasis desired in the course, Part 2 could be covered in sequential order, or it could be postponed until after Part 5. Alternatively, it could be omitted if a strategic management orientation is not desired.

Taken as a whole, this book strives to take the reader through a building-block progression of basic concepts and ideas that are vital to the business and society relationship and to explore the nature of social and ethical issues and stakeholder groups with which management must interact. It considers the external and internal stakeholder groups in some depth.

Summary

The business and society relationship has faced some severe testing over the past five years. In spite of this, the pluralistic system is still at work, presenting business firms with a variety of challenges. The pluralistic business system in the United States has several advantages and some disadvantages. Within this context, business firms must deal with a multitude of stakeholders and an increasingly special-interest society. A major force that shapes the public’s view of business is the criticism that business receives from a variety of sources. Factors in the social environment that have contributed to an atmosphere in which business criticism thrives include affluence, education, public awareness developed through the media (especially TV and the Internet), the revolution of rising expectations, a growing entitlement mentality, the rights movement, and a philosophy of victimization. The global recession may result in changes in business criticism and its antecedents. In addition, actual questionable practices on the part of business have made it a natural target. The ethics scandals, including Enron, post-Enron, and the Wall Street financial scandals, have perpetuated

criticisms of business. Not all firms are guilty, but the guilty attract negative attention to the entire business community. One result is that the trust and legitimacy of the entire business system is called into question.

A major criticism of business is that it abuses its power. To understand power, one needs to recognize that it may exist and operate at four different levels: the level of the entire business system, of groups of companies acting in concert, of the individual firm, and of the individual corporate executive. Moreover, business power may be manifested in several different spheres—economic, political, technological, environmental, social, and individual. It is difficult to assess whether business is actually abusing its power, but it is clear that business has enormous power and that it must exercise it carefully. Power evokes responsibility, and this is the central reason that calls for corporate responsiveness have been prevalent in recent years. The Iron Law of Responsibility calls for greater balance in business power and responsibility. These concerns have led to a changing social environment for business and a changed social contract.

Key Terms

affluence, p. 12	macroenvironment, p. 7	social problem, p. 14
business, p. 6	managerial approach, p. 22	society, p. 7
business ethics, p. 22	pluralism, p. 8	special-interest society, p. 10
business power, p. 17	political environment, p. 8	stakeholder management, p. 22
economic environment, p. 8	revolution of rising expectations, p. 14	stakeholders, p. 23
education, p. 12	rights movement, p. 15	sustainability, p. 22
entitlement mentality, p. 14	social contract, p. 20	technological environment, p. 8
ethics, p. 23	social environment, p. 7	victimization philosophy, p. 16
Iron Law of Responsibility, p. 18		

Discussion Questions

1. In discussions of business and society, why is there a tendency to focus on large- rather than small- or medium-sized firms? Have the corporate ethics scandals of the first decade of the 2000s affected small- and medium-sized firms? If so, in what ways have these firms been affected?
2. What is the one greatest strength of a pluralistic society? What is the one greatest weakness? Do these characteristics work for or against business?
3. Identify and explain the major factors in the social environment that create an atmosphere in which business criticism takes place and prospers. How are the factors related to one another?
4. Has the revolution of rising expectations run its course? Or is it still a vital reality?
5. Give an example of each of the four levels of power discussed in this chapter. Also, give an example of each of the spheres of business power.
6. Explain in your own words the *Iron Law of Responsibility* and the *social contract*. Give an example of a shared understanding between you as a consumer or an employee and a firm with which you do business or for which you work. Is Congress justified in creating new regulations to govern the financial services industry?

Endnotes

1. "Thirty States Back Enron Shareholders," *USA Today* (January 10, 2007), B1.
2. William Powers, "Ethics: The Good Times Do End," *Newsweek* (November 2, 2009), B8.
3. "The Perp Walk," *BusinessWeek* (January 13, 2003), 86.
4. Matthew Philips, "The Neighborhood That Wrecked the World," *Newsweek* (December 29, 2008/January 5, 2009), 16–17.
5. Niall Ferguson, "The End of Prosperity?" *Time* (October 13, 2008), 36–44.
6. Ellen Simon, "Business Year in Review: At Least You've Got Your Health," *The Atlanta Journal-Constitution* (December 26, 2008), E4.
7. Mara Der Hovanesian, "Pointing a Finger at Wall Street," *BusinessWeek* (August 11, 2008), 80.
8. Associated Press, "A New Era of Responsibility," *USA Today* (January 21, 2009), 11A.
9. Liam Fahey and V. K. Narayanan, *Macroenvironmental Analysis for Strategic Management* (St. Paul: West, 1986), 28–30.
10. *Ibid.*
11. Joseph W. McGuire, *Business and Society* (New York: McGraw-Hill, 1963), 130.
12. "Interest Groups Have a Lot at Stake in Health Care Debate," *USA Today* (November 23, 2009), 15A.
13. Greg Ip, "Not Your Father's Pay: Why Wages Today Are Weaker," *The Wall Street Journal* (May 25, 2007), A2. Also see "Income, Poverty, and Health Insurance Coverage in the U.S.: 2005," issued August 2006, http://www.census.gov/prod/2006_pubs/p60-231.pdf.
14. "Television and Health," *The Sourcebook for Teaching Science*, <http://www.csun.edu/science/health/docs/tv&health.html>. Accessed June 2010.
15. Cited in Geoff Colvin, "TV Is Dying? Long Live TV!" *Fortune* (February 5, 2007), 43.
16. "Executives See Unethical Behavior, Media Criticisms as Threats," *Nashville Business Journal* (June 11, 2002).
17. Timothy Lamer, "Crooks in Suits," *World* (July 29, 2006), 29.
18. Linda S. Lichter, S. Robert Lichter, and Stanley Rothman, "How Show Business Shows Business," *Public Opinion* (November 1982), 10–12.

19. Nedra West, "Business and the Soaps," *Business Forum* (Spring 1983), 4.
20. "Facts and Figures about Our TV Habits," 2010, <http://www.tvturnoff.org/>. Accessed June 2010.
21. Michael Medved, "Hollywood's Business-Bashing: Biting the Hand That Is You," *USA Today* (February 3, 2010), 9A.
22. Associated Press, "American Dream Gets a Reality Check," *The Huntsville Times* (May 29, 2007), B8.
23. Gerald F. Seib, "U.S. Hurting in Wallet—and Spirit," *The Wall Street Journal* (December 18, 2009), A2.
24. Robert J. Samuelson, *The Good Life and Its Discontents: The American Dream in the Age of Entitlement, 1945–1995* (New York: Times Books, 1996).
25. Neil H. Jacoby, *Corporate Power and Social Responsibility* (New York: Macmillan, 1973), 186–188.
26. Linda DeStefano, "Looking Ahead to the Year 2000: No Utopia, but Most Expect a Better Life," *The Gallup Poll Monthly* (January 1990), 21.
27. Joseph Nolan, "Business Beware: Early Warning Signs for the Eighties," *Public Opinion* (April/May 1981), 16.
28. Charlotte Low, "Someone's Rights, Another's Wrongs," *Insight* (January 26, 1987), 8.
29. John Leo, "No More Rights Turns," *U.S. News & World Report* (October 23, 1995), 34.
30. John Leo, "A Man's Got a Right to Rights," *U.S. News & World Report* (August 4, 1997), 15.
31. John Taylor, "Don't Blame Me!" *New York* (June 3, 1991).
32. Pete Hamill, "A Confederacy of Complainers," *Esquire* (July 1991).
33. Charles J. Sykes, *A Nation of Victims: The Decay of the American Character* (New York: St. Martin's Press, 1991).
34. Aaron Bernstein, "Too Much Corporate Power?" *BusinessWeek* (September 11, 2000), 144–155.
35. "Is Wal-Mart Too Powerful?" *BusinessWeek* (October 6, 2003).
36. Edwin M. Epstein, "Dimensions of Corporate Power: Part I," *California Management Review* (Winter 1973), 11.
37. *Ibid.*
38. *Ibid.*
39. Keith Davis and Robert L. Blomstrom, *Business and Its Environment* (New York: McGraw-Hill, 1966), 174–175.
40. Bernstein, 146.
41. John Carey, "The Tobacco Deal: Not So Fast," *BusinessWeek* (July 7, 1997), 34–37; Richard Lacayo, "Smoke Gets in Your Eye," *Time* (January 26, 1998), 50; Jeffrey H. Birnbaum, "Tobacco's Can of Worms," *Fortune* (July 21, 1997), 58–60; and Dwight R. Lee, "Will Government's Crusade Against Tobacco Work?" (St. Louis, MO: Center for The Study of American Business, July 1997).
42. "Honesty Is a Pricey Policy," *BusinessWeek* (October 27, 2003), 100–101.
43. Thomas Donaldson and Thomas W. Dunfee, "Toward a Unified Conception of Business Ethics: Integrative Social Contracts Theory," *Academy of Management Review* (April 1994), 252–253.
44. "The New 'Social Contract,'" *BusinessWeek* (July 3, 1971).
45. "New Economy, New Social Contract," *BusinessWeek* (September 11, 2000), 182.
46. Wayne Visser, "Sustainability," in Wayne Visser, Dirk Matten, Manfred Pohl, and Nick Tolhurst, *The A to Z of Corporate Social Responsibility, 2007* (West Sussex, England: John Wiley & Sons), 445–446.
47. United Nations, "Sustainable Development," 1987. *Report of the World Commission on Environment and Development*. General Assembly Resolution 42/187, December 11, 1987.