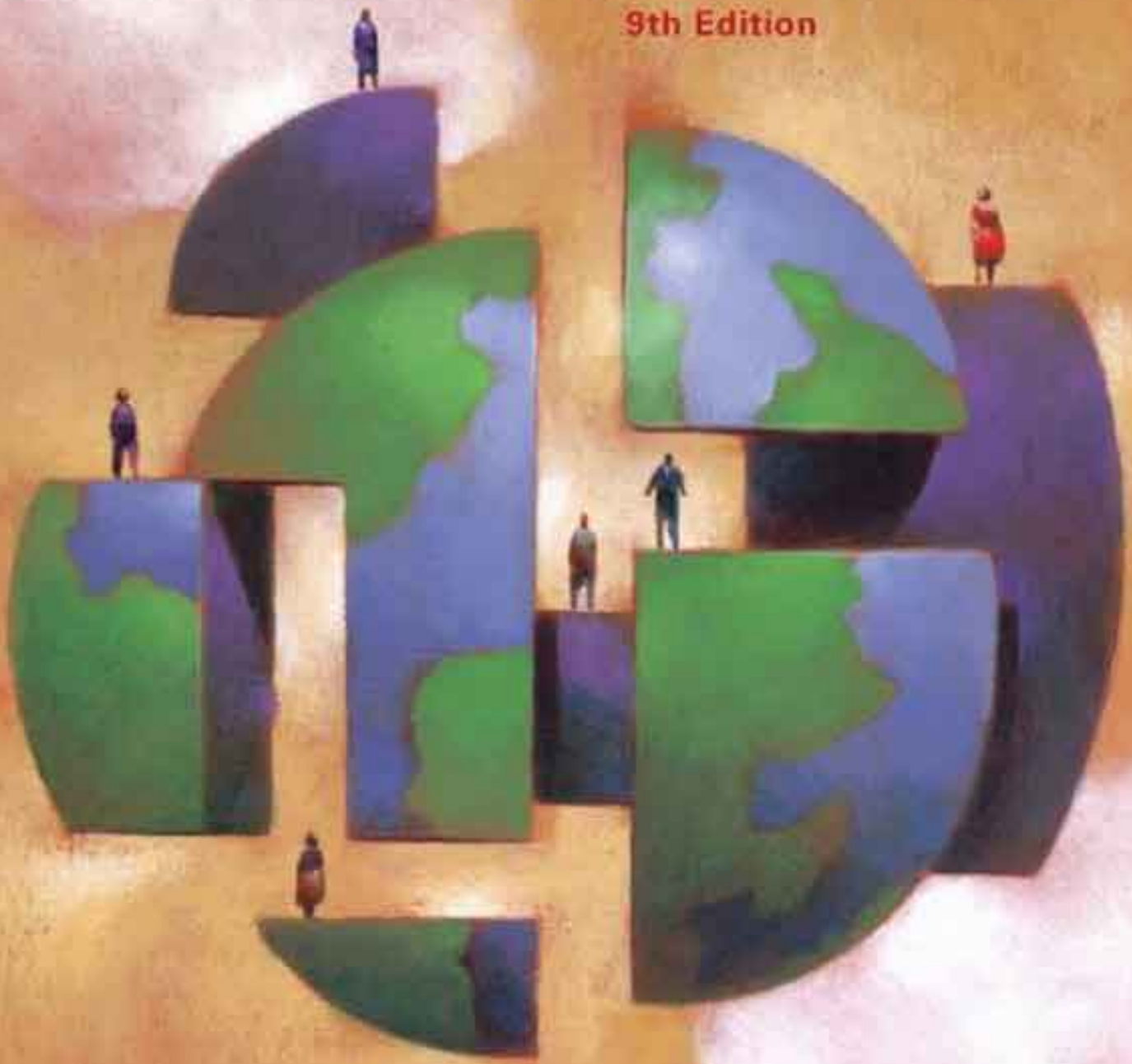
Business & Society

Ethics, Sustainability, and Stakeholder Management

9th Edition



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Business & Society

Ethics, Sustainability, and Stakeholder Management

NINTH EDITION

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Preface

Business & Society: Ethics, Sustainability, and Stakeholder Management, Ninth Edition, provides a conceptual framework, analysis, and discussion of the issues surrounding the business and society relationship. The book's structure, chapters, and cases identify and engage the major topics involved in developing a strong understanding of business *and* society, or business *in* society. The latest research, examples, and cases provide you with a broad, yet detailed analysis of the subject matter; they also offer a solid basis for thoughtful reflection and analysis of the domestic and global issues facing businesses today.

The book employs a managerial perspective that identifies and integrates current and relevant thought and practice. The managerial perspective is embedded within the book's major themes of business ethics, sustainability, and stakeholder management. Each of these themes is crucial today. Each theme takes its own perspective but is consistent with and overlaps with the others. Taken together, they capture the challenges of the past and provide frameworks for thinking about the current and future role of business in society.

The *business ethics* dimension is central because it has become clear that value considerations are woven into the fabric of the public issues that organizations face today. An emphasis is placed on business ethics fundamentals and how ethics integrates into personal and organizational decision making. Special spheres of business ethics discussed include the realms of technology and global capitalism, where ethical questions increasingly have arisen for the past 20 years. The subject of each chapter, moreover, is imbued with ethics considerations that are vital to their full treatment.

Sustainability has become one of business's most recent and pressing mandates. This dimension has been developed further since the eighth edition of this book because it has become more evident in the business world today that a concern for the natural, social, and financial environments are interrelated and that all three must be maintained in balance for both current and future generations.

The *stakeholder management* perspective is crucial and enduring because it requires managers to (1) identify the various groups or individuals who have stakes in the firm or its actions, decisions, policies, and practices and (2) incorporate the stakeholders' concerns into the firm's daily operations and strategic plans. Stakeholder management is an approach that increases the likelihood decision makers will integrate ethical wisdom with management wisdom with respect to all salient parties to the business and society relationship.

As this edition goes to press, the country and world economies have been striving to recover from one of the most perilous financial periods since the Great Depression. The world stock market collapse beginning in the fall of 2008 had devastating repercussions for economies, governments, businesses, and individuals, and still we have not resolved the uncertainty associated with what began as financial turmoil and bankruptcies on Wall Street. This major event and its consequences will be with us for many years, and we urge readers to keep in mind the extent to which our world has now changed as they read through the book and consider its content and application. Major events have the power to change the business and society relationship in significant ways—and instantaneously—so it is essential that the book's topics be read with an ever present eye on the events breaking in the news each day.

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Applicable Courses for Text

This text is appropriate for college and university courses that carry such titles as Business and Society; Business *in* Society; Business and Its Environment; Business Ethics; Business and Public Policy; Social Issues in Management; Business, Government, and Society; Social Responsibility of Business; and Stakeholder Management. The book is appropriate for either a required or an elective course seeking to meet the most recent accrediting standards of the Association to Advance Collegiate Schools of Business (AACSB International). The book has been used successfully in both undergraduate and graduate courses.

Though the AACSB does not require any specific courses in this subject matter, its recently adopted (April 8, 2013) standards specify that a business school's curriculum should include the topics covered throughout this textbook in both undergraduate and graduate degree programs. For undergraduate and graduate degree programs, learning experiences should be addressed and are addressed in General Skill Areas such as *ethical understanding and reasoning* and *diverse and multicultural work environments*. In terms of General Business and Management Knowledge Areas, the following topics should be addressed and are addressed in this textbook: *Economic, political, regulatory, legal, technological, and social contexts of organizations in a globalized society;* and *Social responsibility, including sustainability, and ethical behavior and approaches to management.*

This book is ideal for coverage of perspectives that form the context for business: ethical and global issues; the influence of political, social, legal, environmental, technological and regulatory issues; and the impact of diversity on organizations. The book provides perspectives on business, society, and ethics in the United States, along with examples from Europe, Asia, and other parts of the world. As the world has grown closer due to technology, communications, and transportation, there has been more convergence than divergence in applicability of the ideas presented herein. The book has proved suitable in a number of different countries outside of the United States. In previous editions, versions were published in Canada and China. Publication in Japan is under consideration. Though written from the perspective of American society, a special effort has been made to include some examples from different parts of the world to illustrate major points. Most of the book applies in developed economies around the world.

Objectives in Relevant Courses

Depending on the placement of a course in the curriculum or the individual instructor's philosophy or strategy, this book could be used for a variety of objectives. The courses for which it is intended typically include several essential goals, including the following:

1. Students should be made aware of the expectations and demands that emanate from stakeholders and are placed on business firms.
2. As prospective managers, students need to understand appropriate business responses and management approaches for dealing with social, political, environmental, technological, and global issues and stakeholders.
3. An appreciation of ethical and sustainability issues and the influence these have on society, management decision-making, behavior, policies, and practices is important.
4. The broad question of business's legitimacy as an institution in a global society is at stake and must be addressed from both business and societal perspectives. These topics are essential to business building trust with society and all stakeholders.
5. The increasing extent to which social, ethical, public, environmental, and global issues must be considered from a strategic perspective is critical in such courses.

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New to the Ninth Edition

This ninth edition has been updated and revised to reflect recent research, laws, cases, and examples. Material in this new edition includes

- New research, surveys, and examples throughout all the chapters
- Coverage throughout the text on the most recent ethics scandals and their influence on business, society, organizations, and people
- New concepts and examples on the developing theme of "behavioral ethics"
- Discussion of recent developments with the Sarbanes–Oxley Act and Alien Tort Claims Act, and other laws with significant importance to managers today
- Expanded coverage of insider trading
- Coverage of competing corporate governance perspectives
- Incorporation of the issue of risk management and its relation to business in society
- New coverage of social entrepreneurship and Bottom of the Pyramid
- Expanded coverage of sustainability reporting and integrated reports
- Extended coverage of Citizens United, Super PACs and Dark Money, and the importance of Corporate Political Accountability and Transparency
- Consideration of recent legislation such as the Credit Card Act, which was implemented in 2010, and the Dodd Frank Wall Street Reform and Consumer Financial Protection Act of 2010
- "Spotlight on Sustainability" features in each chapter, which demonstrate how sustainability is relevant and applicable to each chapter's topics
- Forty-four "Ethics in Practice Cases" embedded in chapters throughout the book, 37 of which are brand new to this edition.
- Forty-one end-of-text cases that may be assigned with any of the book's chapter topics, 16 of which are brand new to this edition.
- A revised and updated Instructor's Manual.
- A brand new set of writing prompts incorporated into the powerful Write Experience platform, providing both students and instructors with instant feedback and robust tools to assess and improve writing skills.

"Ethics in Practice Cases"

Continuing in this ninth edition are in-chapter features titled "Ethics in Practice Cases." Interspersed throughout the chapters, these short cases present (1) actual ethical situations faced by companies, managers, or employees (2) topics currently being discussed in the news, or (3) dilemmas faced personally in the work experiences of our former students in university or executive education classes. These latter types of cases are real-life situations actually encountered in their full- and part-time work experiences. Students and managers wrote some of these cases and we are pleased they gave us permission to use them. They provide ready examples of the types of ethical issues people face today. We would like to acknowledge them for their contributions to the book. Instructors may wish to use these as mini-cases for class discussion when a lengthier case is not assigned. They can be read quickly, but they contain considerable substance for class discussion and analysis.

"Spotlight on Sustainability" Features

The "Spotlight on Sustainability" features in each chapter highlight an important and relevant linkage of sustainability concepts that augment each chapter's text material. The feature sometimes highlights a pertinent organization covered in the chapter and further discusses its activities or issues. Other features highlight a sustainability challenge

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that a range of organizations face or a sustainability success that organizations or individuals can emulate. These features permit students to quickly and easily discover how the sustainability theme applies to each topic covered in the text. The concept of sustainability extends to virtually all business, society, and ethics topics, and embraces people and profits, as well as the planet.

Structure of the Book

Part 1. Business, Society, and Stakeholders

Part 1 of the book provides introductory coverage of pertinent business, society, and stakeholder topics and issues. Because most courses that will use this book relate to the issue of corporate social responsibility, this concept is discussed at the outset. Part 1 documents and discusses how corporate social responsiveness evolved from social responsibility and how these two matured into a concern for corporate social performance, sustainability and corporate citizenship. Also given early coverage is the stakeholder management concept, because it provides a way of thinking and analyzing all topics in the book, as well as a helpful perspective for thinking about organizations.

Part 2. Corporate Governance and Strategic Management Issues

The second part of the text addresses corporate governance and strategic management for stakeholder responsiveness. The purpose of this part is to discuss management considerations and implications for dealing with the issues discussed throughout the text. Corporate governance is covered early because in the past decade this topic has been identified as critical to effective strategic management. The strategic management perspective is useful because these issues have impacts on the total organization and have become intense ones for many upper-level managers. Special treatment is given to corporate public policy; issue, risk, and crisis management; and public affairs management.

Some instructors may elect to cover Part 2 later in their courses. It could easily be covered after Part 4 or 5. This option would be most appropriate for those who use the book for a business ethics course or who desire to spend less time on the governance, strategy, and management perspectives.

Part 3. Business Ethics and Management

Four chapters dedicated to business ethics topics are presented in Part 3. In actuality, business ethics cannot be separated from the full range of external and internal stakeholder concerns, but the topic's importance merits the more detailed treatment presented here. Part 3 focuses on business ethics fundamentals, personal and organizational ethics, business ethics and technology, and ethical issues in the global arena. Taken together, they cover business and society issues that require ethical thinking.

Part 4. External Stakeholder Issues

Vital topics here include business's relations with government, consumers, the natural environment, and the community. In each of these topic areas we encounter social and ethical issues that dominate business today. The business-government relationship is divided into the regulatory initiatives to monitor business practices and business's attempts to influence government. Consumers, environment, and community stakeholders are then treated in separate chapters.

Part 5. Internal Stakeholder Issues

The primary internal stakeholders addressed in this part are employees. Here, we consider workplace issues and the key themes of employee rights, employment discrimination, and affirmative action. Two chapters address the changing social contract between business and

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employees and the urgent subjects of employee rights. A final chapter treats the vital topic of employment discrimination and affirmative action. Owner stakeholders may be seen as internal stakeholders, but we cover them in Part 2, where the subject of corporate governance has been placed.

Case Studies

Throughout each of the chapters, there are "Ethics in Practice Cases," 44 in total, that pertain to the chapter in which they are located, but also can be used with other chapters as needed. The 41 cases at the end of the book address a broad range of topics and decision situations. The cases are of varying length. They include classic cases (involving such corporate giants as Walmart, The Body Shop, Nike, McDonald's) with ongoing deliberations, as well as new cases touching upon issues that have arisen in the past several years, such as political accountability in a post-Citizens United world and the environmental and worker-safety issues related to fast fashion. All the cases are intended to provide instructors and students with real-life situations within which to further analyze course issues, concepts, and topics covered throughout the book. These cases have intentionally been placed at the end of the text material so that instructors will feel freer to use them with any text material they desire. Many of the cases in the book carry ramifications that spill over into several subject areas or issues. Almost all of them may be used for different chapters. Immediately preceding the cases is a set of guidelines for case analysis that the instructor may wish to use in place of or in addition to the questions that appear at the end of each case. A case matrix, located inside the front cover of the instructor edition of the textbook and in the instructor's manual, provides guidance as to which of the cases in the book, both Ethics in Practice and End of Text, work best with each chapter.

Support for the Student

CourseMate Student Resources

The CourseMate site, accessible at www.cengagebrain.com, includes many student support resources to enhance and assess learning, including chapter quizzes, PowerPoint slides, key terms, learning objectives, and BBC video clips.

Write Experience

New to this edition is a robust set of engaging writing prompts, correlated to each part of the text and covering such topics as the environment, personal integrity, and employment law. These prompts allow students to write and submit their open-ended responses for immediate autoscoring and feedback on their writing skills, while providing instructors with powerful, time-saving tools for evaluating those results.

Support for the Instructor

Instructor's Manual

The Instructor's Manual includes learning objectives, teaching suggestions, complete chapter outlines, highlighted key terms, answers to discussion questions, case notes, and group exercises. The Instructor's Manual is available on the Web site.

Test Bank

Cengage Learning Testing Powered by Cognero is a flexible, online system that allows you to author, edit, and manage test-bank content from multiple Cengage Learning solutions; create multiple test versions in an instant; and deliver tests from your LMS, your classroom, or wherever you want. The test bank for each chapter includes true/false,

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multiple-choice, short-answer, and essay questions, all correlated to AACSB guidelines and learning standards, and questions are identified by the level of difficulty.

PowerPoint Slides

The PowerPoint presentations are colorful and varied, designed to hold students' interest and reinforce each chapter's main points. The PowerPoint presentations are available on the Web site.

Videos with Instructor Guide

Available within CourseMate, a new set of BBC videos chosen for this edition emphasize textual concepts within real-world scenarios. Through the Instructor Companion site, instructors can also access a guide that includes chapter correlation suggestions, topic overviews, and discussion questions.

Online Instructor Resources

To access the online course materials, please visit www.cengage.com, and log in with your credentials.

Acknowledgments

First, we would like to express gratitude to our professional colleagues in the Social Issues in Management (SIM) Division of the Academy of Management, the International Association for Business and Society (IABS), and the Society for Business Ethics (SBE). Over the years members of these organizations have meant a great deal to us and have helped provide a stimulating environment in which we could intellectually pursue these topics in which we have a common interest. Many of these individuals are cited in this book and their work is sincerely appreciated.

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Archie B. Carroll
Ann K. Buchholtz

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Professor Carroll has published numerous books, chapters, articles, and encyclopedia entries. His research has appeared in the *Academy of Management Journal, Academy of Management Review, Business and Society, Journal of Management, Business Ethics Quarterly, Journal of Business Ethics,* and many others. Professionally, he has served on the editorial review boards of *Business and Society, Business Ethics Quarterly, Academy of Management Review, Journal of Management,* and the *Journal of Public Affairs*.

He is former Division Chair of the Social Issues in Management (SIM) Division of the Academy of Management, a founding board member of the International Association for Business and Society (IABS), and past president of the Society for Business Ethics (SBE). He has been elected a Fellow of the Southern Management Association (1995), Fellow of the Academy of Management (2005), and Fellow of the International Association for Business and Society (2012).

Other important professional recognitions include the Sumner Marcus Award (1992) for Distinguished Service by the SIM Division of the Academy of Management; Distinguished Research Award (1993) by Terry College of Business, University of Georgia; and Distinguished Service Award (2003) by the Terry College of Business. He was named professor *emeritus* (2005) at the University of Georgia and in 2008 he was recognized with the Outstanding Ph.D. Award from the College of Business, Florida State University.

Ann K. Buchholtz

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Professor Buchholtz's research focuses on the social and ethical implications of corporate governance, in particular, and the relationship of business and society in general. Journals in which her work has appeared include *Business and Society, Business Ethics Quarterly*, the *Academy of Management Journal*, the *Academy of Management Review*, the *Journal of Management, Organization Science*, the *Journal of Management Studies*, and *Corporate Governance an International Review*, among others. She serves on the editorial board of *Business & Society*. Her research on board processes received an ANBAR citation of excellence award.

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Her teaching and consulting activities are in the areas of business ethics, social issues, strategic leadership, and corporate governance. Her service learning activities in the classroom received a Trailblazer Advocate of the Year award from the Domestic Violence Council of Northeast Georgia. She is the recipient of numerous teaching awards, including Profound Effect on a Student Leader, and was named a Senior Teaching Fellow at the University of Georgia.

Professor Buchholtz is past Division Chair of the Social Issues in Management Division of the Academy of Management. She served on the ethics task force that designed a Code of Ethics for the Academy of Management and then became the inaugural chairperson of the Academy's Ethics Adjudication Committee when the Academy's ethics code was put into effect. She now serves on the Academy of Management's Board of Governors. Prior to entering academe, Dr. Buchholtz's work focused on the education, vocational, and residential needs of individuals with disabilities. She has worked in a variety of organizations, in both managerial and consultative capacities, and has consulted with numerous public and private firms.

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PART 1

Business, Society, and Stakeholders

Chapter 1
The Business and Society Relationship

Chapter 2
Corporate Citizenship: Social Responsibility, Performance, Sustainability

Chapter 3
The Stakeholder Approach to Business, Society, and Ethics

Paul Anderson/Images.com/Corbis

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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 a pluralistic society becomes a special-interest society.**
4. **Identify, discuss, and illustrate the factors leading up to business criticism.**
5. **Pinpoint the major criticisms of business and characterize business's general response.**
6. **Describe the major themes of the book: managerial approach, ethics, sustainability, and stakeholder management.**

The business and society relationship has generated a number of economic, social, ethical, and environmental challenges over the decades. Though the business system has served society well, criticism of business and its practices has become commonplace in recent decades. This may be a reflection of the natural tendency to take for granted the beneficial aspects of the relationship and to focus on the negative or stressful ones.

Since the early 2000s, beginning with the Enron scandal, a number of major companies have been in the news because of their ethical violations. In the first decade of the 2000s, companies accused of committing violations of the public trust or for raising questions regarding corporate ethics included Martha Stewart, Rite Aid, WorldCom, HealthSouth, and Boeing. As *BusinessWeek* observed, "Watching executives climb the courthouse steps became a spectator sport...."[1] More recently, companies such as Fannie Mae, Freddie Mac, Bear Stearns, and Lehman Brothers have occupied the spotlight.

The business system and society suffered a 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 would take years to settle. It heightened the public's awareness of the impact business can have on the natural environment and heightened support of the sustainability movement which was already well underway. In November 2012, BP agreed to a $4.5 billion settlement of the criminal charges against it for gross negligence in the Deepwater Horizon oil spill. But, it was clear this would not settle all of the future liabilities facing the company.[2]

In the fall of 2008, 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 is now believed to be the most serious financial collapse since the 1920s, this financial crisis centered on Wall Street and many of the major firms that historically had been the backbone of the U.S. financial system. The epicenter of the financial calamity that brought about untold financial damage around the world was the Wall Street district and a handful of financial institutions located in what has been called "the neighborhood that wrecked the world."[3]

The causes of the financial collapse and the ensuing economic chaos are still being debated. The housing bubble burst and years of lax lending

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standards put big investment banks and Wall Street at the center of the collapse.[4] Faced with an unprecedented financial crisis, the federal government entered the bailout business as Congress approved a $700 billion rescue plan[5] for Wall Street financial firms, including Merrill Lynch, Bear Stearns, Citigroup, Lehman Brothers, and AIG. It also approved a plan to bail out the auto industry.

There was plenty of blame to go around for the financial crisis, and the finger-pointing continues to this day. Some of those named as guilty parties included home buyers who took on more debt than they could handle; mortgage lenders who ceased using conventional lending standards; credit rating agencies not doing their job; commission-hungry brokers; builders who conspired with crooked appraisers; and the Federal Reserve, which was accused of flooding the market with easy money.[6] In 2013, the U.S. Department of Justice decided to sue Standard & Poor's Ratings Services for fraud because investors relied on its deceptively high ratings of bonds that signified low default risk.[7] Significant criticism also was directed towards 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.

Also in the fall of 2011, Big Business and the capitalistic system were targeted by a new protest movement which called itself "Occupy Wall Street." The movement reflected some of the built up discontent with the business system which had resulted in high unemployment and financial stress for millions. Hundreds and then thousands of protestors assembled in lower Manhattan, claimed Zuccotti Park as their operating base camp, and began the most energetic anti-capitalism movement that has been seen in years. It didn't take long before the protests spread to other countries and the sit-in that started in New York soon sprouted up in major cities all over the globe.[8] In spite of protests that continued beyond 2012, the Occupy Wall Street (OWS) movement never had a distinct list of criticisms or demands, but it was understood that the enemy was the big business system and modern capitalism.

Though the OWS movement never seemed to forge a clear goal, its list of complaints included crony capitalism, inequality of wealth, the lack of affordable housing, obscenely high executive compensation, business greed, frustration at the lack of good jobs, a culture that puts profits before people, and a general discontent with capitalism and the economic system.[9]

Some observers criticized the protestors because they failed to see the complicity of big government in developing and supporting housing policies that led to the financial crisis in the first place. Throughout the 1990s and 2000s, politicians were pushing mortgage lenders Fannie Mae and Freddie Mac to direct a substantial portion of their mortgage financing to borrowers who had blemished credit or whose income was so low they would never be able to afford their loans. Then private lenders and banks joined in and the cumulative effect was a housing crisis whose bubble burst and threw the entire economic system into disarray and near bankruptcy.[10] In short, though OWS was preoccupied with Wall Street and the capitalistic system, Big Government also had a hand in the crisis as well.

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Business is a more inviting target than government, however, because it is seen as being motivated only by profit, while government is not seeking profits but is charged with acting in the public interest. As a consequence, business and the capitalistic system have become the primary targets of the critics. The Wall Street protestors framed the battle as being between the 99 percent of citizens they represented and the wealthy 1 percent of citizens, primarily businesspeople, they were angry about. The OWS movement had some success as a few public opinion polls showed more of the public supported its cause than opposed it. Further, businesses which claimed to represent enlightened social change, such as Ben & Jerry's ice cream, began donating to the movement beginning in 2012.[11] This group of OWS supporters named themselves the Movement Resource Group. Only time will tell where this movement will go, but in the meantime it has raised public awareness of weaknesses in the capitalistic system. And, more and more commentaries questioning the capitalistic system have been coming out, so it appears to be an issue the business community must address to repair its bruised image.[12]

In addition to the financial crisis, the OWS movement and growing anti-capitalism sentiments, along with the BP oil spill, other serious questions continue to be raised about other ongoing day-to-day business issues: corporate governance, ethical conduct, executive compensation, hiring of illegal immigrants, fluctuating energy prices, government involvement in the economy, healthiness of fast food, international corruption, and so on. The listing of such issues could go on and on, but these examples illustrate the enduring tensions between business and society, which in part 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 interface. Some of these issues have included businesses moving 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 incidents and general issues are typical of the kinds of stories about business and society in newspapers and magazines and on television and the Internet.

At the broadest level, the role of business in society is the subject of this book. Many key concerns will be addressed—the role of business relative to the role of government in the 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, shareholders, and communities in an age of economic uncertainty and globalization. And, throughout all this, a growing mandate for sustainability has captured the attention of business leaders, critics, and public policy makers.

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Spotlight on Sustainability

Perspectives on 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).
- Corporate sustainability can be broadly defined as the pursuit of a business growth strategy by allocating financial or in-kind resources of the corporation to a social or environmental initiative (The Conference Board, *Sustainability Matters*, 2011).
- Sustainability is continuous reduction of our environmental footprint throughout our own facilities and our value or supply chain. We also define it from a social perspective as making sure that the community in general, and certainly communities where we sell products, are viable and healthy and that their needs are met (A consumer products company).

In the middle of the second decade of the new millennium, many economic, legal, ethical, and technological issues concerning business and society continue on. 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 instability in the business and society relationship, some basic concepts and ideas are worth considering first.

Business and Society

There are some basic concepts that are central to understanding the continuing business and society relationship. These concepts include pluralism, our special-interest society, business criticism, corporate power, and corporate social response to stakeholders. First, it is essential to define and describe two key terms that are central to the discussion: *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., Coca-Cola, Microsoft, Apple, Google, Delta Airlines, and UPS). Between these two extremes are many medium-sized proprietorships, partnerships, and corporations.

When businesses are referred to in this collective sense, businesses of all sizes and in all types of industries are included. However, in embarking on a study of business and society, there is a tendency to focus more on big businesses in selected industries. Big Business is highly visible and assumes a huge profile. Its products, services and advertising are widely known. Consequently, it is more frequently in the critical public eye. Size

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is often associated with power, and the powerful are given closer scrutiny. Although small businesses far outnumber large ones, the prevalence, power, visibility, and impact of large firms keep them on the front page most of the time.

In addition, 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 observable air, water, and solid waste 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 pollutants. The auto industry with the manufacture of sport utility vehicles (SUVs) and trucks is a specific case in point. Much of the criticism of General Motors (GM) and other automakers is raised because of their high profile as manufacturers, the products they make (which are the largest single source of air pollution), and the popularity of their products (many families own multiple cars and road congestion is experienced daily).

Some industries are highly visible because of the intensive advertising 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, vitamin firms).

For these reasons, when discussing business in its relationship with society, the focus of attention tends to be on large businesses in particular industries. However, we should not lose sight of the fact that our discussions also apply to small- and medium-sized companies. In recent years, the social responsibilities of smaller enterprises and the developing movement towards social entrepreneurship has captivated considerable attention.

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, business and society relationships may be between business and the local community (business and Atlanta, for example), business and the United States as a whole, global business, or business and a specific group of stakeholders (consumers, employees, investors, environmentalists).

When discussing business and the entire society, society is thought of 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 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 the Forest Stewardship Council.

Society as the Macroenvironment

The environment of society is a key element 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 comprehensive societal context in which organizations reside. The idea of the macroenvironment is just another way of thinking about society. In fact, early courses on business and society 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.

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A useful conceptualization of the macroenvironment is to think of it as being composed of four identifiable but interrelated segments: social, economic, political, and technological.[13]

The **social environment** focuses on demographics, lifestyles, culture, 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. For example, the influx of undocumented workers over the past decade has brought changes to the demographic profile of countries. 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 indices of economic activity. In the past decade, hypercompetition in the world economy has dominated the economic segment of this environment and global competitiveness is now a huge issue for businesses.[14] Slow business growth during the past decade has been a serious problem. Businesses moving jobs offshore has been a controversial trend. Enduring levels of high unemployment, underemployment and use of part-time workers have been problematic.

The **political environment** focuses on the processes by which laws get passed and officials get elected and all other aspects of the interaction between firms, 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, products, and various issues. The passage of the Sarbanes–Oxley Act in 2002 continues to be a contentious issue for many businesses. Beginning in 2009, Congress ramped up its regulatory ambitions as it sought to improve the global economic system. Passage of the Affordable Care Act (ACA) in 2010 introduced considerable uncertainty in business decision making because of its dramatic impact on business costs. Finally, the **technological environment** represents the total set of technology-based advancements taking place in society and the world. This segment includes new products, processes, materials, and means of communication (social networking, for example), as well as the status of knowledge and scientific advancement. The process of technological change is of significant importance here.[15] In recent years, computer-based information technologies and biotechnology have been driving this segment of environmental turbulence.

Understanding that business and society relationships are 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, evidence of these turbulent environmental segments will become apparent and it will become easier to appreciate what challenges managers face as they strive to develop effective organizations while interfacing with society. Each of the thousands of specific groups and organizations that make up our pluralistic society can typically be traced to one of these four environmental segments.

A Pluralistic Society

Societies as macro environments are typically pluralistic. Pluralistic societies make for business and society relationships that are complex and dynamic. **Pluralism** refers to a diffusion of power among society's many groups and organizations. A long-standing definition of a pluralistic society is helpful: "A pluralistic society is one in which there is wide decentralization and diversity of power concentration."[16]

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

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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: [a]Keith Davis and Robert L. Blomstrom, *Business and Society: Environment and Responsibility*, 3d ed. (New York: McGraw- Hill, 1975), 63. [b]Joseph W. McGuire, *Business and Society* (New York: McGraw-Hill, 1963), 132. Also see "Pluralistic Society," http://www.education.com/definition/pluralistic-society/, Accessed March 18, 2013.

pluralism was a virtuous scheme. He correctly anticipated the rise of numerous organizations in society as a consequence of it. Pluralistic societies are found all over the world now, and some of the virtues of a pluralistic society are summarized in Figure 1-1.

Pluralism and Its 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. However, a weakness of a pluralistic system is that it creates an environment in which diverse institutions pursue their own self-interests with the result 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 start 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 though it does provide a greater balance of power among groups in 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 the collectivity of all those persons, groups, and institutions that constitute society. Thus, references to business and society relationships 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 labor unions, business and the church, business and the Federal Trade Commission, and so on).

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. The stakeholder concept will be developed further in Chapter 3. It also should be noted that each stakeholder group may be further subdivided into more specific subgroups.

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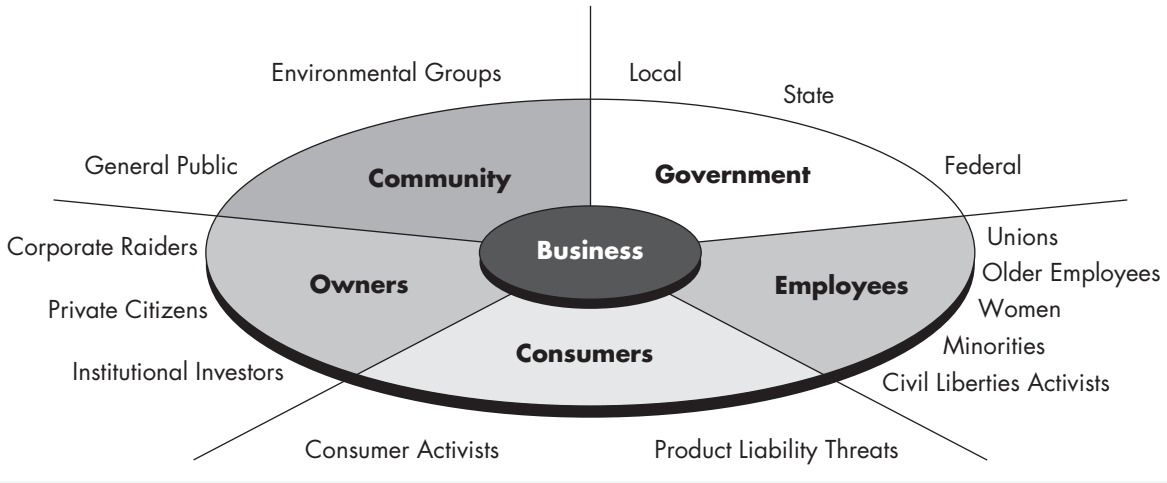
FIGURE 1-2 Business and Selected Stakeholder Relationships



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If sheer numbers of relationships and interactions are an indicator of complexity, business's current relationships with different segments of society constitute a truly complex macro environment. Today, managers must deal with these interfaces on a daily basis, and the study of business and society is designed to improve that understanding.

A Special-Interest Society

A pluralistic society often becomes a **special-interest society**. As the concept 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, often called *advocacy groups*, 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 they also have become increasingly activist, intense, and focused on single issues. Such groups are strongly committed to their causes and strive to put pressure on businesses to meet their needs and on governments to accommodate their agendas.

The health-care debate that began raging in the United States 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.[17] Each of these groups has much at stake in resolving this society-level issue that has significant implications for many sectors, including business. Though the Affordable Care Act was passed in 2010, its implementation has been gradual and contentious details are still in the process of being worked out. The full implications for business are not yet clear.

The consequence of interest-group specialization is that each of these groups has been able to attract a significant following that is dedicated to the group's goals. Increased

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