

BUSINESS AND ITS ENVIRONMENT

Fifth Edition



DAVID P. BARON

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BUSINESS AND ITS ENVIRONMENT

To Mary

Preface

The environment of business has interrelated market and nonmarket components. The market environment is characterized by the structure of the markets in which a firm operates and the rules that govern market competition. The nonmarket environment is characterized by the legal, political, and social arrangements in which the firm is embedded. The nonmarket environment determines the rules of the game for the market environment through government policies and public expectations. Just as firms compete in their market environment, they also compete in their nonmarket environment. Nonmarket competition is more complex, however, because that competition includes not only other firms but also activists, interest groups, the public, and government. *Business and Its Environment* is concerned with the interrelationships among the market and nonmarket environments and the effective management of the issues therein. In contrast to a public policy perspective, the approach taken is managerial. That is, it takes the perspective of firms and managers, not of government or the public. It focuses on issues central to the performance of firms, as measured by both shareholder value and conduct in accord with ethics principles and social responsibilities.

The emphasis in the book is on strategy—nonmarket strategy and its integration with the market strategy of a firm. A nonmarket strategy is composed of objectives and a course of action for participating effectively and responsibly in the nonmarket competition on issues arising in the environment of business. The approach taken in the book emphasizes frameworks, principles, and analysis as the foundations for formulating effective and responsible strategies.

The fifth edition of *Business and Its Environment* represents continuity and change. It retains the structure, much of the subject matter, and the conceptual frameworks of the fourth edition. It also retains the strategy orientation and the guidance of the normative subjects of ethics and social responsibility. The fifth edition includes chapter cases for class discussion of managerial issues and applications of the conceptual frameworks and institutional material. At the end of each of the five parts of the book are integrative cases on an activist challenge to Citigroup, fuel economy standards, pharmaceutical regulation, globalization, and the pricing of AIDS drugs for poor countries. The fifth edition continues the focus on strategies for improving performance by addressing the challenges in the nonmarket environment and their effects on the market environment. The approach draws on the disciplines of economics, political science, law, and ethics to provide a foundation for strategy formulation and a deeper understanding of the environment of business and nonmarket issues. An integrated perspective strengthens the managerial orientation of the book and also enhances the usefulness of the conceptual materials for other parts of the business curriculum.

The principal changes in the fifth edition are a thorough updating of all the chapters, further development of strategy concepts such as nonmarket positioning, new

frameworks such as that of private politics, new and updated applications, and new material on current challenges for firms. The new material includes entrepreneurial positioning, social entrepreneurship, the strategy of activists, social litigation as in the case of obesity, pharmaceutical responsibility, privacy, the fair trade movement, reputation management, and the regulation of broadband and media ownership.

The fifth edition contains 72 cases, including 21 new cases on Citigroup, Google, Exclusive Resorts, the Rainforest Action Network, McDonald's, Merck, Pfizer, Enron Power Marketing, GlaxoSmithKline, UPS, Wal-Mart, Home Depot, and Japan Post, as well as on industry-wide issues including CAFE standards, fair trade, FCC regulation, personal injury litigation, and pharmaceutical responsibility. The new cases are set in the 21st century and address issues in antitrust and regulation, pharmaceuticals, information technology, environmental protection, international business, the activist environment, and business ethics and responsibility. Twenty-one of the cases concern global and international nonmarket issues, and 21 deal with environmental and health issues. Each case poses a managerial problem that requires analysis and strategy formulation.

The book is organized in five parts. Part I introduces the nonmarket environment and nonmarket strategy with a focus on issues involving the public, activists, and the news media. Part II is concerned with issues addressed in the context of government institutions and with nonmarket strategies for dealing with those issues. The frameworks developed in this part provide a foundation for Parts III and IV. Part III focuses on the interactions between government and markets with an emphasis on antitrust, regulation, environmental protection, the law of intellectual property, contracts, and torts, and the economics and politics of information industries. Part IV is explicitly international and provides frameworks for understanding the political economy of countries and the relationships between business and government as a foundation for formulating effective strategies. Japan, the European Union, and China are considered, and international trade policy is used to bring the policy and strategy issues together. Part V is normative and focuses on ethics and corporate social responsibility. The complexities involved in operating in developing countries are considered both through conceptual frameworks and cases.

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