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BUSINESS AND ITS *Environment*



DAVID P. BARON

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AND ITS
ENVIRONMENT

2nd Edition

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Stanford University



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P R E F A C E

Firms operate in both a market environment and a nonmarket environment. The market environment is characterized by the structure of markets and the patterns of competition among market participants. The nonmarket environment is the legal, political, and social context in which firms are embedded. It is characterized by a set of issues firms must address, the interests concerned with those issues, the institutions in whose arenas the issues will be addressed, and the information available about the issues, interests, and institutions. In the market environment, firms interact with customers, suppliers, employees, and other firms. In the nonmarket environment, firms interact with stakeholders, interest and activist groups, governments, and the public. These environments are not exogenous to firms and their managers, but instead are shaped by the actions taken by interested parties in the context of markets and public institutions. These actions not only shape the nonmarket environment, but they also affect the structure of the market environment and the positions of industries and firms in that environment. Similarly, the actions firms take in their market environment generate issues that are addressed in the nonmarket environment. The market and nonmarket environments thus are interrelated. Hence, managers responsible for the performance of the firm must manage in both environments. *Business and Its Environment* addresses the interrelationships between the market and nonmarket environments and the effective management of the issues that arise therein.

The second edition of *Business and Its Environment* represents continuity and change. It retains the structure, the subject matter, and the conceptual frameworks of the first edition. It also retains the managerial orientation, including the focus on strategy formulation and implementation based on the conceptual frameworks for analyzing and addressing issues.

The changes in the second edition include new conceptual materials, an enhanced emphasis on strategy, an approach to country analysis, new and updated examples and applications, and twenty-eight new cases, including several on international business. The second edition also includes integrative cases at the end of each of the five parts of the book. These cases are generally longer than the chapter cases and bring together material and issues from several chapters. Many of the new cases are set in the mid-1990s and address issues in biotechnology, telecommunications, globalization, environmental protection, product safety, business ethics, the employment relationship, and international business. In total, the second edition contains 80 cases. Most of the cases are short and intended to engage the reader quickly by providing only the detail necessary to apply the chapter material. The cases are not intended to provide exemplary lessons or descriptions of current practice. Instead, they pose a managerial issue that requires both analysis and the formulation of a strategy for addressing it.

The second edition adopts an integrated perspective at two levels. First, it brings together the disciplines of economics, political science, law, and ethics to provide a deeper understanding of the environment of business and the issues that arise therein. For example, it provides an integrated treatment of the economics and politics of antitrust, regulation, environmental protection, and international trade policy. It also addresses the ethical dimensions of issues and presents frameworks for analyzing ethical concerns and making

decisions based on ethical principles. Second, a new theme developed in the first two chapters and carried through much of the book is that of integrated strategy—bringing together strategy formulation in the market and nonmarket environments. These two components are brought together in the conceptual frameworks, the examples, and the integrative cases. An integrated perspective strengthens the managerial orientation of the book and enhances the relationship of the conceptual materials to other parts of the business curriculum.

In contrast to a public policy or social responsibility perspective, the approach taken in the book is managerial. That is, the approach takes the perspective of managers, and not of government or the public, and focuses on issues of importance to the performance of firms and their managers. The approach emphasizes analysis and reasoning as the foundations for strategies for improving performance. The emphasis is thus on the formulation of effective and responsible strategies for improved performance in the firm's environment.

The book is organized in five parts. Part I introduces the nonmarket environment of business, the nonmarket issues firms face, the forces that affect the progress of those issues, and the formulation of strategies for addressing them. Part II is concerned with issues addressed in the context of government institutions with an emphasis on legislatures. The framework for political analysis developed in this part provides a foundation for Parts III and IV. Part III focuses on the interactions between government and markets with an emphasis on antitrust, regulation, liability, and environmental protection. The issue of product safety is used to contrast judicial and regulatory approaches to controlling hazards and risks. Part IV is explicitly international and provides frameworks for country analysis based on institutional structure and the pattern of relationships between business and government. The focus is on Japan, the European Union, and international trade policy. Part V is normative and considers the responsibilities of firms and the guidance that ethics provides for management. Ethical systems and ethical reasoning about managerial issues provide the basis for the policies that guide the firm and its employees in their activities. The principal contexts for applications are the stakeholder relationship, the employment relationship, and international business.

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