

William C. Frederick / Keith Davis / James E. Post / Sixth Edition



BUSINESS AND SOCIETY

Corporate Strategy, Public Policy, Ethics



BUSINESS and SOCIETY

Corporate Strategy, Public Policy, Ethics

McGraw-Hill Series in Management

Fred Luthans and Keith Davis, Consulting Editors

Allen: THE MANAGEMENT PROFESSION

Arnold and Feldman: ORGANIZATIONAL BEHAVIOR

Benton: SUPERVISION AND MANAGEMENT

Buchele: THE MANAGEMENT OF BUSINESS AND PUBLIC ORGANIZATIONS

Cascio: MANAGING HUMAN RESOURCES: PRODUCTIVITY, QUALITY OF WORK LIFE, PROFITS

Cleland and King: MANAGEMENT: A SYSTEMS APPROACH

Cleland and King: SYSTEMS ANALYSIS AND PROJECT MANAGEMENT

Dale: MANAGEMENT: THEORY AND PRACTICE

Davis and Newstrom: HUMAN BEHAVIOR AT WORK: ORGANIZATIONAL BEHAVIOR

Davis and Newstrom: ORGANIZATIONAL BEHAVIOR: READINGS AND EXERCISES

Del Mar: OPERATIONS AND INDUSTRIAL MANAGEMENT: DESIGNING AND MANAGING FOR PRODUCTIVITY

Dobler, Lee, and Burt: PURCHASING AND MATERIALS MANAGEMENT: TEXT AND CASES

Dunn and Rachel: WAGE AND SALARY ADMINISTRATION: TOTAL COMPENSATION SYSTEMS

Feldman and Arnold: MANAGING INDIVIDUAL AND GROUP BEHAVIOR IN ORGANIZATIONS

Finch, Jones, and Litterer: MANAGING FOR ORGANIZATIONAL EFFECTIVENESS: AN EXPERIENTIAL APPROACH

Flippo: PERSONNEL MANAGEMENT

Frederick, Davis, Post: BUSINESS AND SOCIETY: CORPORATE STRATEGY, PUBLIC POLICY, ETHICS

Gerloff: ORGANIZATIONAL THEORY AND DESIGN: A STRATEGIC APPROACH FOR MANAGEMENT

Glueck and Snyder: READINGS IN BUSINESS POLICY AND STRATEGY FROM *BUSINESS WEEK*

Hampton: MANAGEMENT

Hampton: INSIDE MANAGEMENT: READINGS FROM *BUSINESS WEEK*

Hicks and Gullett: MANAGEMENT

Hicks and Gullett: MODERN BUSINESS MANAGEMENT: A SYSTEMS AND ENVIRONMENTAL APPROACH

Hicks and Gullett: ORGANIZATIONS: THEORY AND BEHAVIOR

Hodgetts: EFFECTIVE SUPERVISION: A PRACTICAL APPROACH

Jauch and Glueck: BUSINESS POLICY AND STRATEGIC MANAGEMENT

Jauch and Glueck: STRATEGIC MANAGEMENT AND BUSINESS POLICY

Jauch and Townsend: CASES IN STRATEGIC MANAGEMENT AND BUSINESS POLICY

Johnson, Kast, and Rosenzweig: THE THEORY AND MANAGEMENT OF SYSTEMS

Karlins: THE HUMAN USE OF HUMAN RESOURCES

Kast and Rosenzweig: EXPERIENTIAL EXERCISES AND CASES IN MANAGEMENT

Knudson, Woodworth, and Bell: MANAGEMENT: AN EXPERIENTIAL APPROACH

Koontz, O'Donnell, and Weihrich: ESSENTIALS OF MANAGEMENT

Koontz, O'Donnell, and Weihrich: MANAGEMENT

Kopelman: MANAGING PRODUCTIVITY IN ORGANIZATIONS: A PRACTICAL, PEOPLE-ORIENTED PERSPECTIVE

Levin, McLaughlin, Lamone, and Kottas: PRODUCTION/OPERATIONS MANAGEMENT: CONTEMPORARY POLICY FOR MANAGING OPERATING SYSTEMS

Luthans: ORGANIZATIONAL BEHAVIOR

Luthans and Thompson: CONTEMPORARY READINGS IN ORGANIZATIONAL BEHAVIOR

McNichols: EXECUTIVE POLICY AND STRATEGIC PLANNING

McNichols: POLICYMAKING AND EXECUTIVE ACTION
Maier: PROBLEM-SOLVING DISCUSSIONS AND CONFERENCES: LEADERSHIP METHODS AND SKILLS
Margulies and Raia: CONCEPTUAL FOUNDATIONS OF ORGANIZATIONAL DEVELOPMENT
Mayer: PRODUCTION AND OPERATIONS MANAGEMENT
Miles: THEORIES OF MANAGEMENT: IMPLICATIONS FOR ORGANIZATIONAL BEHAVIOR AND DEVELOPMENT
Miles and Snow: ORGANIZATIONAL STRATEGY, STRUCTURE, AND PROCESS
Mills: LABOR-MANAGEMENT RELATIONS
Mitchell and Larson: PEOPLE IN ORGANIZATIONS: AN INTRODUCTION TO ORGANIZATIONAL BEHAVIOR
Molander: RESPONSIVE CAPITALISM: CASE STUDIES IN CORPORATE SOCIAL CONDUCT
Monks: OPERATIONS MANAGEMENT: THEORY AND PROBLEMS
Newstrom, Reif, and Monczka: A CONTINGENCY APPROACH TO MANAGEMENT: READINGS
Parker: THE DYNAMICS OF SUPERVISION
Pearce and Robinson: CORPORATE STRATEGIES: READINGS FROM *BUSINESS WEEK*
Porter and McKibbin: FUTURE OF MANAGEMENT EDUCATION AND DEVELOPMENT
Prasow and Peters: ARBITRATION AND COLLECTIVE BARGAINING: CONFLICT RESOLUTION IN LABOR RELATIONS
Quick and Quick: ORGANIZATIONAL STRESS AND PREVENTIVE MANAGEMENT
Reddin: MANAGERIAL EFFECTIVENESS
Rue and Holland: STRATEGIC MANAGEMENT: CONCEPTS AND EXPERIENCES
Rugman, Lecraw, and Booth: INTERNATIONAL BUSINESS: FIRM AND ENVIRONMENT
Sartain and Baker: THE SUPERVISOR AND THE JOB
Sayles: LEADERSHIP: WHAT EFFECTIVE MANAGERS REALLY DO . . . AND HOW THEY DO IT
Schlesinger, Eccles, and Gabarro: MANAGING BEHAVIOR IN ORGANIZATIONS: TEXT, CASES AND READINGS
Schroeder: OPERATIONS MANAGEMENT: DECISION MAKING IN THE OPERATIONS FUNCTION
Sharplin: STRATEGIC MANAGEMENT
Shore: OPERATIONS MANAGEMENT
Steers and Porter: MOTIVATION AND WORK BEHAVIOR
Steinhoff and Burgess: SMALL BUSINESS MANAGEMENT FUNDAMENTALS
Sutermeister: PEOPLE AND PRODUCTIVITY
Vance: CORPORATE LEADERSHIP: BOARDS, DIRECTORS, AND STRATEGY
Walker: HUMAN RESOURCE PLANNING
Wehrich: MANAGEMENT EXCELLENCE: PRODUCTIVITY THROUGH MBO
Werther and Davis: PERSONNEL MANAGEMENT AND HUMAN RESOURCES
Wofford, Gerloff, and Cummins: ORGANIZATIONAL COMMUNICATIONS: THE KEYSTONE TO MANAGERIAL EFFECTIVENESS

BUSINESS and SOCIETY

Corporate Strategy, Public Policy, Ethics

Sixth Edition

William C. Frederick

University of Pittsburgh

Keith Davis

Arizona State University

James E. Post

Boston University

McGraw-Hill Book Company

New York St. Louis San Francisco Auckland Bogotá Caracas Colorado Springs Hamburg
Lisbon London Madrid Mexico Milan Montreal New Delhi Oklahoma City Panama
Paris San Juan São Paulo Singapore Sydney Tokyo Toronto

BUSINESS AND SOCIETY

Corporate Strategy, Public Policy, Ethics

Copyright © 1988, 1984, 1980, 1975 by McGraw-Hill, Inc. All rights reserved. Formerly published under the titles of **Business, Society, and Environment: Social Power and Social Response**, copyright © 1971 by McGraw-Hill Inc. All rights reserved. **Business and Its Environment**, copyright © 1966 by McGraw-Hill Inc. All rights reserved. Printed in the United States of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a data base or retrieval system, without the prior written permission of the publisher.

3 4 5 6 7 8 9 0 DOCDOC 8 9 3 2 1 0 9 8

ISBN 0-07-015561-5

This book was set in Palatino by the College Composition Unit
in cooperation with Waldman Graphics, Inc.

The editor was Kathleen L. Loy;

the designer was Charles A. Carson;

the production supervisor was Friederich W. Schulte.

The cover Illustrator was Roy Wiemann.

New drawings were done by Fine Line Illustrations, Inc.

Project supervision was done by The Total Book.

R. R. Donnelley & Sons Company was printer and binder.

Library of Congress Cataloging-in-Publication Data

Frederick, William Crittenden (date).

Business and society.

(McGraw-Hill series in management)

Davis's name appears first on the earlier editions.

Includes index.

I. Industry—Social aspects. I. Davis, Keith,
(date). II. Post, James E. III. Title.

IV. Series.

HD60.F72 1988 658.4'08 87-21436

ISBN 0-07-015561-5

ABOUT THE AUTHORS

William C. Frederick is Professor of Business Administration at the University of Pittsburgh. He teaches and conducts research on corporate social responsibility, public affairs management, and business ethics and values. He is a former chairperson of the Social Issues in Management division of The Academy of Management, and in 1984 was the recipient of that division's Sumner Marcus Award for contributions to the division and to the field of business and society studies. He is coauthor of *Social Auditing: Evaluating the Impact of Corporate Programs* and editor of *Research in Corporate Social Performance and Policy: Empirical Studies of Business Ethics and Values*. He has been a management education consultant to private foundations, corporations, and governments in the United States and abroad. He holds a doctorate in economics from the University of Texas.

Keith Davis is Professor Emeritus of Management at Arizona State University. He has a Ph.D. from Ohio State University and formerly taught at Indiana University and the University of Texas. He is a former president of The Academy of Management and is a Fellow in both The Academy of Management and the International Academy of Management. He is author of numerous books and articles, including *Human Behavior at Work*; was named a Beta Gamma Sigma Distinguished Scholar; and has lectured at several universities in the United States and abroad. The first edition of *Business and Society*, coauthored with Robert L. Blomstrom, won a national book award in 1966; and several of his books have been translated into other languages. He has been an active contributor to the business and society field for over thirty years.

James E. Post is Professor of Management and Public Policy at Boston University. He has degrees in law and management; teaches business-government relations, corporate social responsibility, and public affairs management; and has lectured extensively throughout the United States and abroad. His many books include *Private Management and Public Policy* (with Lee E. Preston), *Risk and Response: Management and Social Change in the American Insurance Industry*, and *Corporate Behavior and Social Change*. He has been a consultant and advisor to the World

Health Organization, The Population Council, and the Rockefeller Foundation, and an expert witness before various committees of the U.S. Senate and House of Representatives on the impact of multinational business operations on public health in developing countries. He is a past chairperson of the Social Issues in Management division of The Academy of Management and has been a member of the editorial board of the *Academy of Management Review*.

PREFACE

We welcome readers—whether students, teachers, executives, or other interested persons—to use this book as a way of broadening and deepening their understanding of the ways business and society interact with each other. Our purpose is to clarify these relationships by describing their most prominent features, analyzing the issues that are typical of the business-and-society interface, and suggesting policy guidelines that may carry both business and society toward workable, livable, and mutually beneficial solutions.

Instructors, including those who have used previous editions and others who are looking for a fresh approach to the field, will be interested in knowing what changes have been made in this edition.

Two new chapters have been added. A new Chapter 4, **Corporate Stakeholders and Public Issues**, presents the concept of corporate stakeholders and shows how stakeholder management can be used to improve a company's overall performance. The new Chapter 15, **Business and Media Relations**, contains a thorough discussion of media relationships and responsibilities, including the media's impact on business and other groups in society.

All chapters have been thoroughly updated and revised. Chapters dealing with ideology, ecology and the environment, and international business have been reorganized, with a more effective presentation of these topics.

Six new case studies have been included, each one offering comprehensive coverage of current issues. All of these new cases have multiple themes but are focused on public policy dilemmas that business faces overseas, corporate takeovers, hazardous waste management and cleanup, marketing dilemmas of multinational corporations, doing business in South Africa, and environmental disasters. **Four revised cases** deal with the definition of corporate social responsibility, product recalls, public policy reforms affecting business, and plant closings. The case studies have been deliberately selected to illustrate examples of both effective and ineffective environmental management.

A new feature of this edition is a series of **Critical Incidents** that deal with topical issues. These Critical Incidents illustrate real-world events, pose decision-making situations for students, and provide practice in grappling with actual business problems.

The text contains **discussion of many current topics**, including insider trading, corporate mergers, drug testing, biotechnology, AIDS in the workplace, passive smoking, media images of business and social groups, free market developments in China, political action committees, chemical spills, Big Power politics, developments in South Africa, and many other similar issues of lasting importance.

With the addition of a **new coauthor**—**Professor James E. Post of Boston University**—this new edition places a heavy emphasis on **corporate strategic management**, and it continues the fifth edition's focus on **public policy and ethics**. In light of the growing international complexities of business, a **broad, geopolitical perspective** is employed, with examples of both United States-based and foreign-based corporations. **An analytic framework** that involves the use of new models and helpful diagrams continues the book's conceptual approach to business and society relationships.

For instructors who adopt the book for classroom use, a **completely revised instructor's manual** is available. It is now a practical guide that can be used before class to prepare teaching materials, class lecture notes, and in-class assignments. It contains teaching guides for each chapter and each case study, sample examinations, suggestions for in-class and out-of-class projects, a list of term paper topics, an audiovisual bibliography of films and cassettes, transparency masters of all figures in the book for use on an overhead projector, and other such teaching aids.

Acknowledgments

Writing a comprehensive textbook is a collaborative effort. The authors wish to express their gratitude for the assistance and support of many colleagues and friends who contributed ideas, reviewed the manuscript, conducted ancillary research, or helped otherwise to produce this book.

Underlying the entire structure of the book is a very comprehensive body of theory and research produced by many scholars during the past four decades. This body of literature now defines the major outlines and contains the central questions of the business-and-society field of inquiry. We are indebted to all of those scholars, past and present, who have helped build this structure of theory and research. Many of their ideas and insights may be found throughout this book.

A number of people made specific contributions to the book's content. John F. Mahon provided much of the information for the Superfund case study. James Weber prepared the case study on Bhopal and assisted in gathering information for other case studies and a number of text chapters. Michelle Poirier also conducted research and prepared materials for several chapters and case studies. Brenda Manning helped design the new format for the Instructor's Manual, and she wrote major portions of the manual and coordinated the authors' work on it.

We were helped by several faculty colleagues who reviewed portions of the manuscript and offered suggestions. They included James A. Craft, University of Pittsburgh; Robert B. Dickie, John F. Mahon, and Edwin A. Murray, Jr., all of Boston University; Paul Shrivastava, New York University; and Sandra A. Waddock, Boston College. A very special and valuable form of assistance was rendered by the following persons who reviewed and made suggestions for improvement in the book's overall plan: William Anthony, Florida State University; Oya Culpan, Pennsylvania State University (Capital Campus); David Flynn, State University of New York at Albany; Edwin C.

Leonard, Indiana University–Purdue University at Fort Wayne; Thomas Martin, Southern Illinois University; and Janet Stern Soloman, Towson State University–Purdue, University at Fort Wayne; and Janet Stern Soloman, Towson State University.

Fully as valuable and indispensable as any of the collaborative efforts involved in writing the book were the professional and administrative support activities of Diane Robinson, Robin Carter, and Ann Stawowczyk.

We deeply appreciate the willing support and encouragement of all these friends and colleagues whose skills and insights have enhanced the quality of the book.

We are pleased also to remind readers about the earlier contributions of Robert L. Blomstrom who was coauthor of the first four editions of the book.

William C. Frederick
Keith Davis
James E. Post

INTRODUCTION AND OVERVIEW

In this introduction, we wish to explain the overall design of the book, which is divided into four major parts. We have written the book so that it tells its story in a logical sequence. The book's "plot" is simple but profound: **Business executives who wish to direct their companies in the successful pursuit of profits must take into consideration the broad social environment. Their decisions, policies, and actions—their plans for the present and the future—their strategies and tactics for achieving the company's goals—all of these must be undertaken in ways that include and integrate major elements of the social and political world surrounding company operations.**

The *penalties* for failing to observe this simple precaution can be severe: A company's financial future can be jeopardized, its employees can lose their jobs, and much harm can be done to individuals and groups in society. On the other hand, the *rewards* of factoring environmental concerns into business decisions and policies can be great: Customer loyalty can be gained, thereby securing or expanding a company's share of the market; investors may be attracted to a company with a good record of social concern, thereby increasing invested capital; employee morale can be boosted, thus enhancing the firm's productivity by making people proud to work for the firm; company managers can enjoy larger amounts of influence in shaping public policies that affect business; and all employees from top to bottom can gain satisfaction from knowing that their company's social responsibilities and ethical obligations are a realistic part of daily work.

The book's central characters—the "heroes" and "heroines"—are the people who devote their professional lives to business careers. We make no distinctions based on social class, organizational rank, gender, race, national origin, color of skin, ethnic affiliation, religion, age, or physical and mental condition. The distinctive mark of the business professional is none of these. Rather, the essential trait is a knowledge of business combined with a high degree of skill in applying that knowledge to practical problems. Whether the business professional is an accountant, a personnel expert, a computer analyst, a manager, a financial specialist, a marketing research analyst, an industrial engineer, a lawyer specializing in business affairs, an executive secretary or an administrative assistant—all share a common heritage and an indispensable trait, namely, the ability to confront a problem and to search for a practical solution.

Combining the "plot" with the "central characters" produces the book's "narrative," which deals mainly with a complex range of business-and-

society relationships and issues. Some of these interactions are bumpy and controversial. Business and society do not always get along well with one another. Many social issues are highly charged with emotion. A few of them seem to pit business and society against one another in bitter struggles. The reasons for these difficulties are explained as the book's narrative proceeds.

Even though the business-and-society interface is sometimes scarred by the brickbats hurled by people on both sides, a strong "subplot" running through the entire book deals with the ability of business and society to cooperate smoothly. More often than not—and certainly more often than the general public realizes—business and society collaborate in solving problems that neither one acting alone could solve. These "social partnerships," as we call them, are the key to a more effective social role for business and are one way to increase socially responsible business actions.

A Road Map for Reading This Book

Figure 1 is a diagram showing the overall plan of the book and illustrating how each chapter fits into that plan.

The book's major focus is **The Socially Responsive Corporation**, which is shown at the top of the diagram. A socially responsive corporation has the ability to interact positively and humanely with people and groups in its social environment.

Chapters 1 through 9 in Part I, *The Corporation in Society*, and Part II, *The Corporation and Government*, describe various **Tools for Environmental Analysis and Corporate Strategic Planning**. These chapters identify for business leaders, corporate managers, public officials, and various groups in society the most effective ways to analyze and understand business-and-society problems. These approaches also enable corporations to plan strategically to attain their goals and to carry out their economic mission in society, while acting in socially responsible ways. The chapters in Parts I and II contain *the conceptual core* of the book. These concepts can be, and actually are, used by business corporations as tools to resolve business-and-society problems. The primary goal of Parts I and II is to identify these tools and to demonstrate how they can be used to analyze environmental problems facing business.

In Part III, *Corporate Stakeholders*, and Part IV, *Managing in a Turbulent World*, we apply the tools from Parts I and II to a broad range of business-and-society issues and problems. Specific **Corporate Stakeholders** are discussed in Chapters 7 through 15. Each of these stakeholders makes demands on business, thus requiring managers to develop strategies for coping with their demands and pressures.

Broad **Environmental Management Challenges** that are typical of today's turbulent world are analyzed in Chapters 15 through 18. A high degree of social sophistication and management skill is needed by business managers if their companies are to find acceptable ways to deal with such problems. It is here that one sees the difficulties, as well as the opportunities, of knowing and applying the tools of environmental analysis (from Parts I and II) to complex situations. We should mention that the overlap that includes Chap-

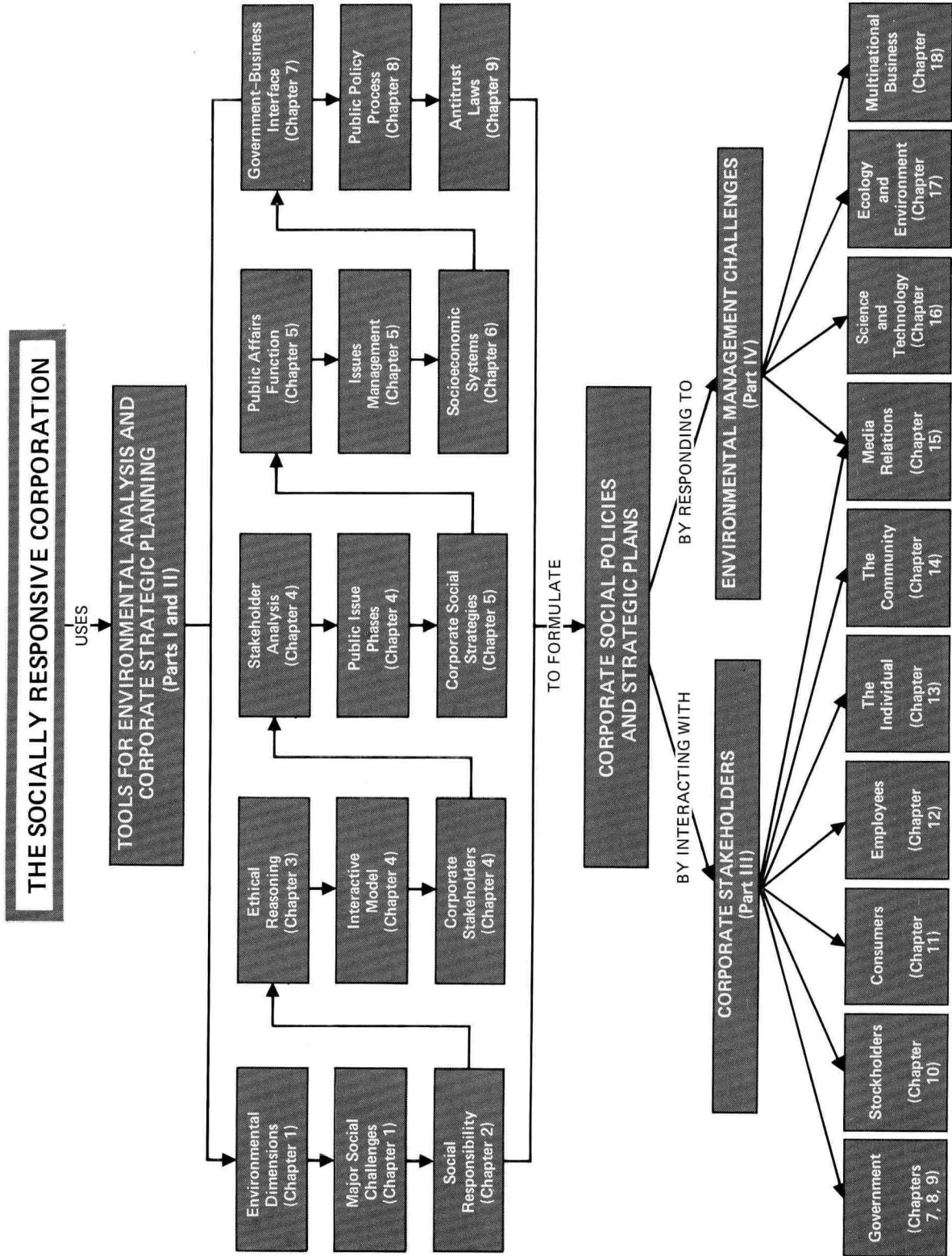


FIGURE 1 A Diagram of the Book's Major Ideas and Themes.

ter 15's topic, the media, as both a corporate stakeholder and as a management challenge is deliberate.

Figure 1, by itself, can only suggest the bare outlines of socially responsive corporate behavior and what is required to produce it. The outline can be filled in and a greater understanding can be achieved after reading and mastering the entire book. However, this chart can be used as an orienting guide and road map while reading the book. It will enable the reader to see where she or he is at as one reads the separate chapters. It can be especially helpful in grasping the relation of any one chapter to the book's overall themes. We hope readers will use it for these purposes. Looking at the diagram each time a new chapter is started would be a wise step for anyone. Figure 1 is reproduced again in Chapter 19, where a summary and overview of the entire book are presented.

A Special Note to Instructors

Although the book is designed to unfold its story chapter by chapter, we realize that many instructors prefer to cover specific topics in other sequences or to omit some topics altogether. For that reason, the chapters are written to stand alone as independent units that can be assigned in any preferred order. Cross references to related subject matter appear in some of the chapters, although such guides are written to serve as helpful linkages rather than to impose an arbitrary order of presentation. We do believe that the book's first five chapters will have a maximum effect if read relatively early. The final chapter can be used either as a summary of the book's major themes, which can be read at the conclusion of the course, or as an introductory overview at the beginning.

The ten case studies that appear at the end of the book are not included in Figure 1 because each case study has been written deliberately so that it includes more than one theme or issue. Therefore, the cases are not anchored to one particular location within the book's narrative but can be assigned at several different points depending on the instructor's preference.

The Critical Incident that appears at the end of each chapter is intended to pose a problem requiring a decision or the formulation of a policy related to the topic of that chapter. These Critical Incidents can be used instead of the longer case studies, or they can be assigned as a practice vehicle before assigning the case studies.

A Note for All Readers

Readers of this book have our assurance that we have tried to present a balanced, even-handed picture of business and society relationships. While no one can be perfectly neutral on controversial issues, it is possible and desirable to present both sides, to show the consequences of each argument, and to provide references to other materials that develop the arguments in greater detail. This approach and philosophy have guided the design and writing of each chapter of the book.

The authors make no secret of their commitment to the major theme of the text, namely, that socially responsive corporations are good for society and good for business. But our experience as teachers has taught us that there are many valid ways to define and approach business-and-society problems. Each student's viewpoints and beliefs deserve to be heard, examined, and put to the test of argumentation. We like to think that we have learned as much or more from our students as they have learned from us. We hope all readers will find something here that can enrich their personal and professional lives.

CONTENTS

PREFACE

xix

INTRODUCTION AND OVERVIEW

xxiii

PART I THE CORPORATION IN SOCIETY

1 CORPORATE SOCIAL POLICY: THE ISSUES AND CHALLENGES

3

Business's Complex Social Environment

5

The International Dimension

5

The Regulatory Dimension

6

The Political Dimension

7

The Technological Dimension

7

The Value Dimension

8

The Knowledge Dimension

8

Management's Need for Environmental Knowledge

9

Corporate Strategic Planning

9

Public Policy toward Business

11

Ethical Standards and Social Values

12

A Framework for Identifying Environmental Problems

13

Fundamental Social Challenges to Business

13

Summary

23

Discussion and Review Questions

23

Critical Incident

Not in My Backyard

24

2 CORPORATE SOCIAL RESPONSIBILITY

26

Corporate Social Responsibility

27

The Origin of Corporate Social Responsibility

28

The Modern Meaning of Corporate Social Responsibility

30

Types of Socially Responsible Actions by Business

32

The Debate about Corporate Social Responsibility

35

Arguments for Corporate Social Responsibility

36

Arguments against Corporate Social Responsibility

39

Making Judgments about Corporate Social Responsibility

43

Taking an Analytical Approach to Corporate Social Responsibility

45

Strategic Planning and Corporate Social Responsibility

46

Summary

47

Discussion and Review Questions

47

Critical Incident

Continental State Bank

48