

ESSENTIALS OF PUBLIC POLICY FOR MANAGEMENT



Rogene A. Buchholz

THE ESSENTIALS OF MANAGEMENT SERIES

ESSENTIALS OF PUBLIC POLICY FOR MANAGEMENT

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FOREWORD

With the rapid growth in recent years of courses in such areas as personnel, organizational behavior, production, decision science, labor relations, and small business management, there has developed an increased need for a viable alternative to the standard 500- or 600-page, casebound textbook. The Essentials of Management Series has been designed to fill that need. The Series consists of brief, survey books covering major content areas within the management discipline.

Each book in the Series provides a concise treatment of the key concepts and issues within a major content area, written in a highly readable style, balancing theory with practical applications, and offering a clarity of presentation that is often missing in standard, full-length textbooks. I have selected authors both for their academic expertise and their ability to identify, organize, and articulate the essential elements of their subject. So, for example, you will find that the books in this Series avoid unnecessary jargon, use a conversational writing style, include extensive examples and interesting illustrations of concepts, and have the focus of a rifle rather than that of an encyclopedic shotgun.

The books in this Series will prove useful to a wide variety of readers. Since each covers the essential body of knowledge in a major area of management, they can be used alone for introductory survey courses in colleges

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and universities or for management development and in-house educational programs. Additionally, their short format makes them an ideal vehicle to be combined with cases, readings, and/or experiential materials by instructors who desire to mold a course to meet unique objectives. The books in this Series offer the flexibility that is either not feasible or too costly to achieve with a standard textbook.

Stephen P. Robbins

Series Editor

PREFACE

The importance of public policy to business executives can hardly be overestimated. Indeed, it seems fair to say that the total environment in which business operates is more a function of public policy than it is of traditional free market forces. The aggregate economic conditions that a company faces as far as employment and income levels are concerned are largely determined by the fiscal and monetary policies of government. Specific industries are affected by protectionist measures, environmental regulation, subsidies, and tax policies. Beyond the industry level, the fate of individual companies is oftentimes in the hands of government due to the necessity of winning a government contract or the need for a guaranteed loan from the government.

The foregoing are merely illustrations of the way in which public policy can affect business organizations. Since public policy is so important, it is necessary for business executives and business students to have some knowledge of what public policy is all about and how it is formulated. Knowledge of how public policy shapes the business environment is important in order to analyze the impact specific measures might have on a particular company, industry, or the entire business sector. The public policy process must be understood so business executives can know how and when to appropriately and effectively participate in public policy formulation. To abdicate this role is to leave the fate of business up to government officials, public interest group leaders, and other participants in the public policy process. This hardly seems to be a wise position for corporate management to take in view of its responsibility to stockholders, employees, consumers, and the public at large.

Public policy is too important to be left up to government or interest groups alone. Many of the adverse consequences of government regulation formulated in the 1960s and 1970s might have been avoided if business had been more active in its formulation. Business has a responsibility to participate in the public policy process and help solve the nation's economic and social problems. In the words of John Dunlop, former Secretary of Labor and a leading advocate of public policy for business:

The absence of effective leadership for the business community on many public policy questions—in consensus building and in dealing with other groups and governments—means that business enterprises forfeit almost entirely to politicians. The rapid expansion of government regulations in recent years and

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specifically government's penchant for rigid, bureaucratic "command and control" regulations, even when ineffective and counterproductive, have arisen in part from a lack of coherence and consensus within the business community about more constructive choices for achieving social purposes.¹

This book is designed for use by business executives and students in schools of business and management. It is hoped that the book will find a market in the trade, both for reading by individual executives and in executive development programs. In academia, the book should be useful in a business and society course as well as a traditional business policy course where environmental influences on business policy are considered. It should also be useful for executive development programs sponsored by schools of business and management.

Various topics related to public policy that are of importance to business managers and students are discussed in the book. The evolution of the public policy concept as a new dimension of management is discussed in the first chapter. In the second chapter, some definitional and conceptual material related to public policy is discussed to provide some intellectual foundations for subsequent material. An historical overview of major developments in public policy and business is presented in chapter three. The origins of public policy are discussed to give the reader an idea of how public issues, which originate in our society, may become formal public policy. The process by which public policy is formalized is discussed next. This discussion covers the way the federal government operates. Impacts of public policy on business include changes in corporate structure and behavior that public policy has brought about. The process of public issues management is discussed and analyzed in chapter seven. This will familiarize the reader with an evolving function within corporations, through which management's response to public issues that affect the corporation is formalized. This function is an emerging one that involves various roles within the corporate organization. The strategies that can be adopted for public policy participation are the subject of chapter eight. These strategies are discussed in a framework that corresponds with the stages of public policy formulation. Finally, a word is said about the future of business and public policy.

Thanks are due to many people who were influential in the writing of this book. William C. Frederick of the University of Pittsburgh is owed a great debt of personal gratitude for introducing me to the field of business environment and public policy, and serving as my mentor during my years of study at that institution. Lee E. Preston and James E. Post deserve credit for introducing me to the concept of public policy in their book, *Private Management and Public Policy*, which was very influential in shaping my thinking. Equally influential was Murray L. Weidenbaum, whom I worked with for three years at the Center for the Study of American Business (CSAB) at Washington University in St. Louis, Missouri. This association made me aware of the impacts public policy has on business. My work with the American Assembly of Collegiate Schools of Business, which along with the CSAB sponsored the study of the business environ-

¹John T. Dunlop, "The Concerns: Business and Public Policy," *Harvard Business Review*, vol. 57, no. 6 (November–December 1979), p. 86.

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ment/public policy field that I conducted, acquainted me with many aspects of the public policy dimension of management. James E. Post and Stephen P. Robbins, the series editor, also deserve thanks for reviewing the book at an early stage and making many suggestions for improvement. The people at Prentice-Hall with whom I worked provided a great deal of assistance and encouragement at every step of the process. Their interest in this project is greatly appreciated. Finally, my wife deserves no end of credit, not only for her understanding and support in writing the book, which took time away from family responsibilities, but also for her help in typing the manuscript.

Rogene A. Buchholz

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THE EVOLUTION OF PUBLIC POLICY AS A NEW DIMENSION OF MANAGEMENT

== IDEAS TO BE FOUND == IN THIS CHAPTER

- Changes in the social environment of business
- Corporate social responsibility
- Corporate social responsiveness
- The reality of public policy
- Public policy as a new dimension of management

Management education underwent a period of concentrated self-examination in the late 1950s and early 1960s with the publication of two comprehensive studies that were widely discussed throughout the business and academic communities.¹ A third study followed which summarized the above reports and offered a series of recommendations for the improvement of management education.²

Among other things, these reports stressed the importance of including "environmental" courses in the curriculum of business schools and of promoting research into environmental issues and problems. It was clear from references to the business environment that these reports were concerned not only with the more traditional economic and legal environments, but with the social and political environments as well. For example, one

¹ Frank C. Pierson, *The Education of American Businessmen* (New York: McGraw-Hill, 1959); Robert A. Gordon and James E. Howell, *Higher Education for Business* (New York: Columbia University Press, 1959).

² Committee for Economic Development, *Educating Tomorrow's Managers* (New York: CED, 1964).

author stressed the need for "the manager of tomorrow to understand, and be sensitive to, the entire economic, political, and social environment in which we will live and in which his business will operate and be judged."³

While not necessarily introducing the issue of the environment to business educators and management practitioners, the reports at least reawakened interest in a broad range of environmental influences on business as part of a professional business education. A narrow vocationalism, the reports stressed, that ignores these environmental influences, is not appropriate for preparing managers for today's world. The importance of the environment to business is described in the following quote:

There are two points to stress about the relations between business firms and their environment. One is the fact of mutual interaction. The environment helps to determine the alternatives on the basis of which business decisions are made and also affects the value systems which supply the criteria for choosing among these alternatives. At the same time, business firms, individually and particularly collectively, react upon their environment. It is this fact that makes it so important for businessmen to bring a keen sense of social responsibility to their jobs. More than economic effects ensue from their decisions. Business activity affects government policy in a variety of ways. It helps to determine the conditions of community living; it has been largely responsible for the kind of urban civilization in which we live; it helps to shape the intellectual and moral tone of the times.

Another important aspect of the interrelations between business and its environment is that these relations are continuously changing, evolving out of the past into a future that can be but vaguely foreseen. Change and uncertainty are the very essence of the businessman's life. It is a truism that the world which today's students will have to manage a generation hence will be much different from the world which they and their teachers know at present. Businessmen clearly have to be equipped to deal with unforeseen change, to have some idea of the sources of change in their environment, and, so far as this is possible, to anticipate change.⁴

CHANGES IN THE SOCIAL ENVIRONMENT OF BUSINESS

The last paragraph could not have been more prophetic. The decade of the 1960s was one of sweeping social change that affected business organizations in ways that are still not fully understood and accepted. The focus on civil rights for minorities, equal rights for women, protection of the physical

³ Pierson, *Education*, p. 323.

⁴ Gordon and Howell, *Higher Education*, p. 65.

environment, safety and health in the workplace, and a broad array of consumer issues has had far-reaching and long-lasting impacts on business organizations and on the management of these organizations. The long-term effect of this social change is a dramatic change in the "rules of the game" by which business is expected to operate.

While social movements have appeared at various times throughout American history, they seemed to proliferate in the 1960s. The decade began with the civil rights movement based on the dissatisfaction of blacks with their status in American society. Pressures for change had been building for several years. In 1955 a black woman, Rosa Parks, had refused to move to the rear of a city bus in Birmingham, Alabama, a customary practice in southern states with Jim Crow laws. This refusal led to her arrest and ignited a social movement throughout the South in support of civil rights for blacks. Boycotts of buses and white merchants, and nonviolent demonstrations and marches were used with great success to influence public opinion. The result of this movement was the passage of new federal laws relating to civil rights that attempted to provide equal opportunity for blacks and other minorities to pursue their interests in all areas of American society.

Soon after the civil rights movement began to have a major impact on American society, many women began to express dissatisfaction with their lot in society. They complained about the lack of equal opportunity in the workplace: being paid less than men for performing essentially the same job, being denied an opportunity to move into higher-paying jobs in management and the professions, and a host of other problems. Outside the workplace they complained about being stereotyped as housewives and mothers, being treated as sex objects, and being treated unfairly when applying for credit. Thus began a feminist movement to pursue equal status for women in American society. The movement also used the tactics of boycotts and demonstrations to influence public opinion, and pressed for legislation and even a constitutional amendment, which was subsequently defeated, to assure equal rights for women in all areas of American life.

The consumer movement resulted from dissatisfaction with the quality of products available on the marketplace, the inadequate response of companies to consumer complaints, the meaninglessness of warranties, the number of accidents related to consumer products, and similar problems. The consumer movement was concerned with a variety of issues that grew out of a technologically sophisticated and complex marketplace coupled with a highly affluent and educated population that had high aspirations and expectations regarding the quality of life it wanted for itself. The dramatic event which sparked the movement was the publication in 1965 of Ralph Nader's *Unsafe at Any Speed*, a book that was critical of the Corvair automobile and indicted the producer, General Motors, for a lack of concern about automobile safety. The response of General Motors to this book catapulted Nader into a leadership position in the consumer movement. The

primary tactic used by the consumer movement to pursue its goals was one of working within the political system to pass an enormous amount of consumer legislation.

The ecology movement sprang up almost overnight, helped by books that focused on DDT and other alleged evils which were being perpetuated by business and causing environmental problems. During the latter years of the 1960s, many of the energies that had gone into the civil rights movement were channeled into the environmental movement as the former matured. Public consciousness about pollution of the environment increased rapidly. The result was a major public policy effort to control pollution and correct for the deficiencies of the market system in controlling the amount and types of waste discharged into the environment.

Fifteen or so years ago, pollution and ecology were two terms rarely found in the lexicon of business. Today environmental survival and pollution abatement are major topics of the times and receive prominent exposure in the literature of business and economics. If any one issue provided the initial sustenance for social responsibility proponents, that issue was the effect of business operations and practices on the physical environment. Probably more words have been written on this subject than on most others of a business and social problems context.⁵

Other social changes that were taking place in the 1960s and the 1970s had to do with the growth of entitlement programs (social security, medicare, medicaid, food stamps, etc.) that captured an ever-increasing share of the federal budget. The energy, safety, and health consciousness of the population spilled over into a concern about safety and health in the workplace, where a crisis atmosphere was created that led to a comprehensive federal law dealing with occupational safety and health. Concern about the ethical standards of business emerged out of the Watergate experience and the foreign payments controversy.

It is clear that a major social revolution took place during the 1960s and 1970s that had major impacts on business. There was a change of values throughout society evidenced by a concern about the social impacts of business, a change of personal attitudes as business received more criticism, and a change of social organization as more and more interest groups emerged to institutionalize these social concerns.

There are many reasons for this unprecedented amount of social change. The educational level of society increased after World War II, which may have increased the aspirations and expectations of many people for a higher quality of life than they were presently experiencing. Television and

⁵ Arthur Elkins and Dennis W. Callaghan, *A Managerial Odyssey: Problems in Business and Its Environment*, 2nd ed. (Reading, Mass.: Addison-Wesley, 1978), p. 173.

other media had an enormous impact on the amount of information flowing throughout society, making people aware of problems and events instantaneously, and influencing public opinion in support of emerging social movements. There was also a general euphoria throughout American society in the 1960s that the great society could be created by eliminating poverty, cleaning up pollution, and solving all our social problems, while providing an ever-increasing standard of living for all citizens.

Perhaps society can also be thought of in the familiar model developed by Abraham Maslow with respect to individual development. During the 1950s, many people became relatively affluent and moved into a middle-class or even upper-class status. They were blessed with new products that made life easier and more interesting. Thus a large part of society may have felt that its basic economic or lower-order needs were satisfied, and attention could be turned towards fulfillment of higher-order needs such as pollution control, respect for the basic rights of all citizens, increasing the safety and health aspects of the workplace and marketplace, and providing more economic resources for the less fortunate members of society.

CORPORATE SOCIAL RESPONSIBILITY

Given this kind of a social revolution, it is not surprising that the social environment was given increasing attention during the 1960s and 1970s by business corporations and schools of business and management. While some scholars suggest that the concept of corporate social responsibility may have had its origins in the 1930s, the concept really came into its own during the 1960s as a response to the changing social values of society.⁶ Executives began to talk about the social responsibilities of business and develop specific social programs in response to problems of a social, rather than economic, nature. Schools of business and management implemented new courses in business and society or in the social responsibilities of business.

There are many definitions of social responsibility, but in general it means that a private corporation has responsibilities to society that go beyond the production of goods and services at a profit—that a corporation has a broader constituency to serve than that of stockholders alone. Corporations relate to society through more than just the marketplace and serve a wider range of human values than the traditional economic values implied when the corporation is viewed solely as an economic institution. Corporate social responsibility means that corporations have a responsibility to help society solve some of its most pressing social problems (many of which the

⁶ William C. Frederick, "From CSR₁ to CSR₂: The Maturing of Business and Society Thought," Graduate School of Business, University of Pittsburgh, 1978, Working Paper No. 279, p. 1.

corporation helped to cause) by devoting some of its resources—human, financial, capital—to the solution of these problems.

The concept of social responsibility received increasing attention during the 1960s because of the need for corporations to respond to the changing social environment of business. This change was often described as a change in the terms of the contract between business and society that reflected changing expectations regarding the social performance of business.⁷ The old contract between business and society was based on the view that economic growth was the source of all progress, social as well as economic. The engine providing this economic growth was considered to be the drive for profits by competitive private enterprise. The basic mission of business was thus to produce goods and services at a profit, and in doing this business was making its maximum contribution to society and, in fact, being socially responsible.⁸

The new contract between business and society was based on the view that the single-minded pursuit of economic growth produced some detrimental side effects that imposed social costs on certain segments of society or on society as a whole. The pursuit of economic growth, it was believed, did not necessarily lead automatically to social progress. In many cases it led instead to a deteriorating physical environment, an unsafe workplace, needless exposure to toxic substances on the part of workers and consumers, discrimination against certain groups in society, urban decay, and other social problems. This new contract between business and society involved the reduction of these social costs of business through impressing upon business the idea that it has an obligation to work for social betterment. The new contract does not invalidate the old contract—it simply adds new terms or additional clauses to that contract (Figure 1.1) and includes a responsibility for both economic and social impacts.

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. Business enterprises, in effect, are being asked to contribute more to the quality of American life than just supplying quantities of goods and services.⁹

The debate about social responsibility was extensive. The supporters of social responsibility argued the following:

⁷ Melvin Anshen, *Managing the Socially Responsible Corporation* (New York: Macmillan, 1974).

⁸ Milton Friedman, "The Social Responsibility of Business Is To Increase Its Profits," *New York Times Magazine*, Sept. 13, 1970, pp. 122–26.

⁹ Committee for Economic Development, *Social Responsibility of Business Corporations* (New York: CED, 1972), p. 12.