

Fifth Edition

BUSINESS, GOVERNMENT, AND SOCIETY

A MANAGERIAL PERSPECTIVE

**TEXT
AND CASES**



GEORGE A. STEINER

JOHN F. STEINER

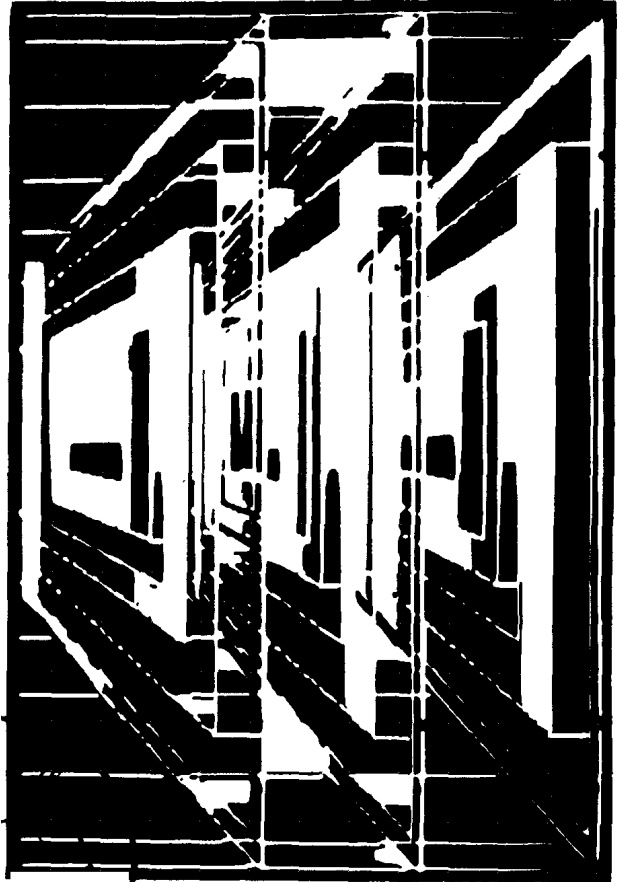
Fifth Edition

BUSINESS, GOVERNMENT, AND SOCIETY

**A MANAGERIAL
PERSPECTIVE**

**TEXT
AND CASES**

Originally published as **Business
and Society**



GEORGE A. STEINER

Harry and Elsa Kunin Professor of Business and Society and Professor of Management, Emeritus, UCLA

JOHN F. STEINER

Professor of Management and Director of the Center for the Study of Business in Society, California State University, Los Angeles



Random House Business Division New York

PERMISSIONS ACKNOWLEDGMENTS

Exhibit 1-5 (p. 13) Reprinted with permission of The Free Press, a Division of Macmillan, Inc., from *Corporate Power and Social Responsibility* by Neil H. Jacoby. Copyright © 1973 by The Trustees of Columbia University in the City of New York.

Exhibit 1-6 (p. 15) Reprinted with permission of Macmillan Publishing Company from *Management Policy and Strategy*, Third Edition, by George A. Steiner, John B. Miner, and Edmund R. Gray. Copyright © 1986 by Macmillan Publishing Company.

Table 1-1 (p. 16) Copyright © 1984 by the Regents of the University of California. Reprinted from the *California Management Review*, Vol. 26, No. 3. By permission of The Regents.

Table 4-1 (p. 81) Copyright © 1985 by National Journal Inc. All Rights Reserved. Reprinted by permission.

Excerpt (p. 167) From Ronald Berenbeim, *Regulation: Its Impact on Decision Making*. Copyright © 1981 The Conference Board.

List (p. 467) From Patrick E. McGuire, *The Product Safety Function: Organization and Operations*. Copyright © 1979 The Conference Board.

Fifth Edition

4689753

Copyright © 1971, 1975, 1980, 1985, 1988 by Random House, Inc.

All rights reserved under International and Pan-American Copyright Conventions. No part of this book may be reproduced in any form or by any means, electronic or mechanical, including photocopying, without permission in writing from the publisher. All inquiries should be addressed to Random House, Inc., 201 East 50th Street, New York, N.Y. 10022. Published in the United States by Random House, Inc., and simultaneously in Canada by Random House of Canada Limited, Toronto.

Library of Congress Cataloging-in-Publication Data

Steiner, George Albert

Business, government, and society.

Bibliography.

Includes index.

1. Industry—Social aspects—United States.

2. Industry and state—United States. I. Steiner, John F. II. Title.

HD60.5.U5S8 1988 658.4'08 87-28526

ISBN 0-394-37474-6

Manufactured in the United States of America

Text and cover design: Glen M. Edelstein

To Our Students
Past, Present, and Future

PREFACE

This book, as its title explains, is about the interrelationships among business, government, and society—from the point of view of business managers. Today, we are witnessing significant changes in these relationships. The impact on management has altered in a major way the attitudes, perspectives, decision making, and functioning of managers in our corporations, particularly of the larger ones. But business is not a passive agent in this drama. It has influenced the relationship in important ways.

We prepared this book for a broad audience, including university students, business managers, and inquiring observers with an interest in business and how it is managed. For each of these groups we believe the topic is of arresting importance because the forces examined here will in one way or another significantly affect their lives.

Changes in the New Edition

The basic framework, content, and thrust of the preceding edition of this text have been retained. However, significant changes have been made that we believe improve the book substantively and make it more interesting for the reader as well.

New subject matter or expanded treatment of old analyses has been added in practically every chapter. We have added much to the coverage of business practices undertaken in response to new environmental influences. Many chapters have been rewritten almost in their entirety. At the same time, topics that have receded in importance since publication of the last edition have been deleted or abbreviated. We have eliminated four chapters and a chapter-length appendix. But the most important parts of the deleted chapters have been retained and integrated in other chapters. And the sequence of chapters has been revised to improve the flow of the discussion.

We have added two new features that we believe not only will heighten the reader's interest in the book, but also will help to elaborate important issues with actual stories and cases taken from the business world. Every chapter begins with a short sketch of developments in a well-known corporation that highlights a major topic of the chapter. Also scattered throughout the book are features that we call "You Be the Judge." These are, for the most part, significant U.S. Supreme Court cases. With this feature the reader is given a chance to test his or her conclusions about each case against the decisions of a majority of the Court.

Cases

As in the last edition, the reader will find one or two case studies at the end of each chapter. Most of them deal with real companies or current situations. In all, there are 23 cases, most of a moderate length. We regard these cases as an important part of the text

material. They may be used to provoke class discussion or, in some cases, as illustrative readings that elaborate on the subject matter of the chapters.

Philosophy

Our philosophy of writing text material for this edition has been to present a broad, current survey of business-government-society topics while at the same time achieving some depth of treatment. We aim for precise, detailed, accurate, and well-documented exposition rather than simplification. We believe this book will be challenging to readers, including both undergraduate and graduate students. We hope this proves to be the case for two fundamental reasons—not only as an appropriate challenge, but also because a rich scholarly treatment is ultimately more compelling to readers at all levels than bland oversimplification.

Acknowledgments

This book would not have been possible without the research and writings of many people. We have tried to recognize authors who have been most helpful by citing, where appropriate, their works. We are deeply indebted to them.

Many people have made comments and suggestions concerning the preparation of this fifth edition, too many to name here. We do want to express our appreciation however, to a number of our colleagues in academic life, as follows:

A. Janell Anderson, California State University, Sacramento; Keith R. Blunt, California State University, Los Angeles; James D. Boulgarides, California State University, Los Angeles; Daylin J. Butler, Kansas State University; Dharma DeSilva, Wichita State University; James R. Glenn, Jr., San Francisco State University; Robert Hogner, Florida International University; Jeanne M. Logsdon, Santa Clara University; Daniel J. B. Mitchell, University of California, Los Angeles; Harvey Nussbaum, Wayne State University; Harold Sackman, California State University, Los Angeles; George E. Stevens, University of Central Florida; Donald J. Watson, University of South Florida; Jonathan P. West, University of Miami; J. Fred Weston, University of California, Los Angeles; Erika Wilson, California State University, Los Angeles.

At the John F. Kennedy Library at California State University, Los Angeles, Murray J. Ross, George Rolling, and Alan Stein gave valuable advice on the research process.

Many people in the business community and other organizations were helpful to us and we wish to acknowledge their aid. Among them are: Rev. Willie Barrows, Operation PUSH; R. Clifford Black, IV, National Railroad Passenger Corporation; Earl Brount, Rockwell International Corporation; Robert Charleton, Dow Chemical Co.; Mark Cohen, Mobil Oil Corporation; Brian Daly, Rockwell International Corporation; Kent Dreyvestyn, General Dynamics Corporation; Joan Gilbert, Texaco, Inc.; Jane Gootie, Dow Chemical Co.; William Henry, Jr., Lockheed Corporation; Rich Long, Dow Chemical Company; John Lonnquist, Manville Corporation; Sister Mary Ann McGivern, Loretto Literary and Benevolent Association; John McGuire, General Dynamics Corporation; Austin Marks, Hewlett-Packard Company; J. Duncan Muir, J. C. Penney Company, Inc.; David A. Osterland, Ohio Edison Company; Eleanor Paradowsky, Merck & Co., Inc.; William Smith, Exxon Corporation; Kenneth O. Sniffen, Union Carbide Corporation; Sue

Thompson, Levi Strauss & Company; George Trainer, Ford Motor Company; Arthur Weise, American Petroleum Institute; Judith P. Wilkenfeld, Federal Trade Commission.

We are grateful for help and encouragement from the staff of the Business Division of Random House, Inc., particularly June Smith, Executive Editor; Susan Badger, Acquisitions Editor; Sheila Friedling, Project Editor; and Dan Alpert, Developmental Editor.

We give special thanks for their help to Deborah Luedy and Jean W. Steiner.

George A. Steiner

John F. Steiner

CONTENTS

Preface vi

INTRODUCTION

- 1 The Study of Business, Government, and Society 3

PART I UNDERLYING FORCES IN TODAY'S INTERRELATIONSHIPS 23

- 2 The Business Environment 25
- 3 Corporate Power and Legitimacy 54
- 4 The Critics of Business 76

PART II BUSINESS AND GOVERNMENT 115

- 5 The Government-Business Relationship:
An Overview 117
- 6 New Patterns in Government Regulation of Business 147
- 7 Regulatory Relief and Reform 177

PART III BUSINESS IDEOLOGIES AND SOCIAL RESPONSIBILITIES 217

- 8 Changing Managerial Ideologies 219
- 9 The Social Responsibilities of Business 247
- 10 Institutionalizing Social Concerns in Business 280

PART IV	ETHICS	317
11	Ethics in the Business System	319
12	Making Ethical Decisions in Business	354
PART V	MAJOR FUNCTIONAL ISSUES	393
13	Pollution Problems and Public Policy	395
14	Pollution Policy Issues	426
15	Consumerism	449
16	The Changing Internal Face of Organizational Life	488
17	Minorities, Women, and Antidiscrimination Law in the Workplace	526
PART VI	CORPORATE ISSUES	569
18	Business in the Political Process	571
19	Multinational Corporations and Government Relationships	599
20	Reforming Corporate Governance	643
POSTSCRIPT		676
	APPENDIX A Antecedents of Capitalism	679
	APPENDIX B The Classical Theory of Capitalism	694
	References	<i>follow page 703</i>
	Index	<i>follows page R-19</i>

DETAILED CONTENTS

Preface vi

INTRODUCTION

CHAPTER 1 The Study of Business, Government,
and Society 3

EXXON 3

THE NATURE AND SPECTRUM OF BGS RELATIONSHIPS 4

MODELS OF THE BGS INTERRELATIONSHIPS 7

The Dominance Model 7 The Market Capitalism Model 9 The Business
Ecology Model 11 The Dominant Force Model 12 The Stakeholder
Model 14 Managerial Attitudes About Stakeholders 16

BUSINESS AND THE SOCIAL CONTRACT 16

CHARACTERISTICS OF THE ANALYSIS 17

Focus on Strategic Management 17 Interdisciplinary Approach with a
Managerial Focus 18 Comprehensive Scope 18 Focus on Theory 19
Issues, Facts, and Conclusions About Policy and Practice 10

BOUNDARIES OF THE BGS FIELD 21

PART I **UNDERLYING FORCES IN TODAY'S**
INTERRELATIONSHIPS 23

CHAPTER 2 The Business Environment 25

EASTMAN KODAK COMPANY 25

UNDERLYING HISTORICAL FORCES CHANGING THE BUSINESS
ENVIRONMENT 27

The Industrial Revolution 27 Dominant Ideologies 27 Inequality of

Human Circumstances 28 Scientific Development 28 Nation-States 28
Great Leadership 29 Change 29

THE CURRENT BUSINESS ENVIRONMENT 29

THE ECONOMIC ENVIRONMENT 32

THE TECHNOLOGICAL ENVIRONMENT 33

THE POLITICAL ENVIRONMENT 35

The Governmental Environment 35 The Legal Environment 36
Pluralism 36

THE SOCIAL ENVIRONMENT 37

Changing Values 37 Changing Attitudes and Values Affecting
Business 39 Criticisms of Business 40

OTHER EXTERNAL ENVIRONMENTS 40

THE INTERNAL ENVIRONMENT 41

BUSINESS'S IMPACT ON ITS ENVIRONMENTS 42

IMPLICATIONS FOR BUSINESS AND THE BUSINESS INSTITUTION 42

CASE STUDY ASBESTOS LITIGATION "BANKRUPTS" MANVILLE 44

CHAPTER 3 Corporate Power and Legitimacy 54

GENERAL MOTORS CORPORATION 54

THE NATURE OF POWER 55

Spheres of Business Power 56

THEORIES OF THE EXERCISE OF BUSINESS POWER 56

Concentration of Economic Power Leads to Abuse 57 Corporate Asset
Concentration 57 Power Elite Theory 59 Interlocking Directorates 62

An Evaluation of the Power Elite Model 63 Pluralist Theory 65

How Pluralism Shapes the Political Process 68

BUSINESS LEGITIMACY 70

SUMMARY 71

CASE STUDY CONSTRUCTION OF THE CENTRAL PACIFIC 72

CHAPTER 4 The Critics of Business**76****SISTERS OF LORETTO 76****HISTORICAL TRENDS IN PUBLIC ATTITUDES TOWARD BUSINESS 78**

The Ancient and Medieval Worlds 78 Attitudinal Trends in United States
History 79 Recent Antibusiness Sentiment 80

**FACTORS UNDERLYING NEGATIVE ATTITUDES TOWARD AMERICAN
BUSINESS 82**

Traditional American Antipathy to Centralized Power 82 Conspiracy
Theories 83 Negative Rumors About Business 84 The Dynamics of
Group Power 85 The Tension Between Capitalism and Democracy 86
Mistrust of Government and Politicians 86 Genuine Abuses in the Business
System 87 The Operation of the Business Cycle 87 The Existence of
Rising Expectations 87 The Process of Economic Socialization in
Children 88 Public Ignorance of the Business System 88 The Treatment
of Business by Journalists, Novelists, and Scriptwriters 89

CURRENT CRITICISM OF AMERICAN BUSINESS 92

Reform-Oriented Activist Critics 93 Nonactivist Liberal-Humanistic
Critics 95 Marxist and Neo-Marxist Critics 95 Radical Non-Marxist
Critics 96 Reactionary Critics 97

MARX AND THE LEFTIST CHALLENGE: A SPECIAL NOTE 98

Marx's Background 98 Economic Determinism 99 Dialectical
Materialism 99 The Theory of Surplus Value 99 The Inevitability of
Class War 100 Concluding Observations 100

ACTIVIST CRITICS WHO ARE CORPORATE SHAREHOLDERS 101

Topics and Tactics of Shareholder Resolutions 102 The Impact of
Shareholder Proposals 103

CONCLUSION: THE FUNCTION OF CRITICISM 103**CASE STUDY OPERATION PUSH NEGOTIATES WITH
CORPORATIONS 105****PART II BUSINESS AND GOVERNMENT 115****CHAPTER 5 The Government-Business Relationship:
An Overview 117****DRESSER INDUSTRIES 117****LEGAL BASES OF GOVERNMENT ACTION TOWARD BUSINESS 119**

THE SCOPE OF GOVERNMENT RELATIONS WITH BUSINESS 120

UNDERLYING REASONS FOR GOVERNMENT REGULATION OF THE PRIVATE SECTOR 123

Flaws in the Market 123 Social, Political, and Other Reasons for Regulation 124 Why Business Sometimes Seeks Government Regulation 125

CHANGING HISTORICAL PATTERNS OF GOVERNMENT-BUSINESS RELATIONSHIPS 126

The Myth of Laissez-Faire 127 The First Wave 128 The Second Wave 128 The Third Wave 129 The Fourth Wave 129 War Blips 132

A MIXED, FREE ECONOMY 133

AN OVERVIEW OF THE BUSINESS-GOVERNMENT RELATIONSHIP 133

THE SECOND MANAGERIAL REVOLUTION 134

THE FUTURE OF THE BUSINESS SYSTEM 136

CASE STUDY AMTRAK 137

CHAPTER 6 New Patterns in Government Regulation of Business

147

ADVANCED GENETIC SCIENCES 147

THE REGULATORY LIFE CYCLE 150

DIMENSIONS OF TODAY'S FEDERAL REGULATION OF BUSINESS 152

The Volume of Regulatory Legislation 152 Costs of Regulation Are Significant 154 Traditional Industry versus Functional Social Regulatory Agencies 155 Newer Regulations Have Different Purposes and Apply Different Policies and Methods 157 Lack of Accountability of Independent Regulatory Commissions 158 Conflicts Among Regulations 159 Flapdoodle Standards and Specifications 160 New Technological Issues 161 Delays in Administrative Decision Making 161 Accelerated Pace of Regulatory Reform 162

REGULATORY IMPACTS ON MANAGERIAL ROLES, PROCESSES, AND STRUCTURES 162

CEO Involvement in Political Affairs 162 Requisite Talents for Success in Washington, D.C. 164 The Washington Office 166 Organizational Structures and Management Processes 166

CONCLUDING OBSERVATIONS 168

CASE STUDY CONTROLLING ACID RAIN 169

CHAPTER 7 Regulatory Relief and Reform 177

GENERAL MOTORS CORPORATION 177

REGULATORY RELIEF, REFORM POLICIES, AND PROGRAMS OF THE
REAGAN ADMINISTRATION 180

Early Regulatory Directives of the Administration 180 Accomplishments
Claimed for Regulatory Relief and Reform 181 An Assessment: Revolution
or Blip 183

REVISING THE ANTITRUST LAWS 185

The Sherman and Clayton Acts 185 The Clayton and Federal Trade
Commission Acts 187

SUPREME COURT DECISIONS CONCERNING FIRM SIZE, PRICE FIXING,
AND MERGERS 187

Shifts in the Legality of Size and Price Fixing 188 Conglomerates and
Threats to Competition 188 Structure versus Performance 190 Reagan
Administration Proposals for Reform 195 Concluding Comment 196

PROPOSALS FOR FEDERAL REGULATORY RELIEF AND REFORM 196

Rely More on the Free Market 196 Reduce Command Controls and
Substitute with Incentive Controls 197 Proposals for Deregulation 198
Harness the Power of Self-Interest 199 Stress the Comparative Advantage
of Government and Business 199 Reprivatize 200

REFORMING THE REGULATORY PROCESS 201

Structural versus Strategic Reform 201 Regulatory Administration 201

INNOVATIVE POLITICAL AND JUDICIARY PROPOSALS FOR REFORM 202

Pass Sunset Legislation 202 Reform Congress 203 Prepare Congressional
Cost-Benefit Analysis Before Legislation Is Passed 203
Create a Technical Supreme Council 203

IMPROVE BUSINESS BEHAVIOR 204

ON BALANCING THE PUBLIC INTEREST AND INDIVIDUAL ECONOMIC
FREEDOM 204

OUTLOOK FOR REGULATORY REFORM 206

CASE STUDY AIRLINE DEREGULATION 207

<u>PART III</u>	BUSINESS IDEOLOGIES AND SOCIAL RESPONSIBILITIES	217
CHAPTER 8	Changing Managerial Ideologies	219
SEARS, ROEBUCK & CO. 219		
WHAT IS A BUSINESS IDEOLOGY? 220		
PURPOSES OF THE BUSINESS IDEOLOGY 221		
THE CLASSICAL IDEOLOGY 222		
Government 222 The Free-Market Mechanism 223 Competition 223		
Consumers and Service 223 Government Finance 223 Profit 224		
Property Rights 224 Labor 224 International Trade 224 Economic		
Growth 225 Importance of the Businessperson 225 Variations in the		
Ideology 225		
CHANGING ENVIRONMENTS MODIFY THE BUSINESS IDEOLOGY 225		
THE MODERN MANAGERIAL IDEOLOGY 226		
The Committee for Economic Development 227 The McKinsey		
Lectures 228 Managers Must Balance Consituent Interests 228 Business		
Social Responsibilities 229 Cooperation with and Acceptance of the Power		
of Government 230 Reliance on the Free-Market Mechanism 231 Need		
for Big Organizations 232 Stress on Human Values 232 Labor 232		
International Trade 233 Ethics and Morality 233		
GAPS AND SHORTCOMINGS IN THE IDEOLOGIES 234		
The Classical Ideology 234 The New Managerial Ideology 234		
AN ESTIMATE OF WHICH MANAGERS HOLD WHICH IDEOLOGY 235		
COMPETING IDEOLOGIES 235		
INDIVIDUAL COMPANY VALUE SYSTEMS 236		
CONCLUDING COMMENT 236		
CASE STUDY CHRYSLER CORPORATION BAILOUT 238		
CHAPTER 9	The Social Responsibilities of Business	247
DOW CHEMICAL COMPANY 247		

WHAT IS MEANT BY THE SOCIAL RESPONSIBILITY OF BUSINESS? 249
 Corporate Social Program Areas 250 Responsibility to Stakeholders 251

THE CASE FOR BUSINESS ASSUMPTION OF SOCIAL
 RESPONSIBILITIES 252

Society Expects Business to Assume Social Responsibilities 252 Long-run
 Self-Interest of Business 253 Avoidance of Government Regulation 253
 Executives Are Concerned Citizens 254

THE CASE AGAINST BUSINESS ASSUMPTION OF SOCIAL
 RESPONSIBILITIES 255

Contrary to the Basic Functions of Business 255 Social Responsibility Will
 Weaken Our Freedoms 256 We Do Not Want Business Values to Dominate
 Us 257 Government, Not Business, Should Solve Social Problems 257

AN ASSESSMENT OF THE ARGUMENTS 258

ASSESSING MANAGERIAL MOTIVES 260

THE CONCEPT OF VOLUNTARISM 261

SOCIAL AND ECONOMIC PERFORMANCE: ARE THEY RELATED? 262

SOCIALLY RESPONSIBLE INVESTING 263

Pressures on Institutional Investors 263

BUSINESS AND MAJOR SOCIAL PROBLEMS 264

Business Is Not Solely Responsible for Solving Social Problems 264 Social
 Responsibility and the Costs of Doing Business 265 How Much Social Cost
 Should Business Bear? 265

CRITERIA FOR DETERMINING THE SOCIAL RESPONSIBILITIES OF
 BUSINESS 267

CONCLUDING OBSERVATIONS 269

CASE STUDY WAR TOYS 270

CHAPTER 10 Institutionalizing Social Concerns in Business

280

HEWLETT-PACKARD COMPANY 280

PATTERNS OF CORPORATE RESPONSE TO SOCIAL DEMANDS 281

INSTITUTIONALIZING SOCIAL ACTION IN CORPORATE DECISION
MAKING 283

REALITIES OF INJECTING VOLUNTARY SOCIAL ACTION INTO THE
DECISION-MAKING PROCESS 284

A CONCEPTUAL MODEL FOR MANAGING SOCIAL
RESPONSIVENESS 285

MAKING OPERATIONAL THE SOCIAL POINT OF VIEW 287
Formulating Social Policy and Strategy 287 Top Management
Leadership 287 Changing the Corporate Culture 288 Managerial
Selection and Rewards 288 Managerial Training Programs 289
Organizational Changes 289

EVALUATING ENVIRONMENTS 290
The Spectrum of Environmental Analyses 290 An Environmental Analysis
Model 291

PUBLIC ISSUES MANAGEMENT (PIM) 297
PIM Defined 297 Organizing for PIM 298

PHILANTHROPIC PROGRAMS 299
The Legality of Corporate Philanthropy 299 Philanthropic
Allocations 300 Cause-Related Marketing 300

CORPORATE SOCIAL REPORTING AND THE SOCIAL AUDIT 301

CONCLUDING OBSERVATIONS 302

CASE STUDY THE UNION CARBIDE CORPORATION AND BHOPAL: A
CASE STUDY OF MANAGEMENT RESPONSIBILITY 303

PART IV ETHICS 317

CHAPTER 11 Ethics in the Business System 319

PENTHOUSE 319

WHAT ARE BUSINESS ETHICS? 320

TWO THEORIES OF BUSINESS ETHICS 322
Ethical Practice in Business 325 Individual versus Corporate Ethical
Responsibility 328

SOURCES OF THE BUSINESS ETHOS 329