



Ninth Edition

BUSINESS AND SOCIETY

Corporate Strategy, Public Policy, Ethics

*James E. Post
Anne T. Lawrence
James Weber*

Ninth Edition

Business and Society

Corporate Strategy, Public Policy, Ethics

James E. Post

Boston University

Anne T. Lawrence

San Jose State University

James Weber

Duquesne University



**Irwin
McGraw-Hill**

Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis
Bangkok Bogotá Caracas Lisbon London Madrid
Mexico City Milan New Delhi Seoul Singapore Sydney Taipei Toronto

Irwin/McGraw-Hill

A Division of The McGraw-Hill Companies

Business and Society: Corporate Strategy, Public Policy, Ethics

Copyright © 1999 by The McGraw-Hill Companies, Inc. All rights reserved. Previous editions © 1975, 1980, 1984, 1988, 1992, and 1996. 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.

This book is printed on recycled, acid-free paper containing 10% post consumer waste.

3 4 5 6 7 8 9 0 DOC/DOC 9 3 2 1 0 9

ISBN 0-07-292447-0

Vice president and editorial director: *Michael W. Junior*

Publisher: *Craig D. Beytlen*

Sponsoring editor: *Karen M. Mellon*

Marketing manager: *Kenyetta Giles*

Project manager: *Kimberly D. Hooker*

Production supervisor: *Lori Koetters*

Designer: *Kiera Cunningham*

Supplement coordinator: *Linda Huenecke*

Compositor: *York Graphic Services*

Typeface: *10/12 Times Roman*

Printer: *R. R. Donnelley & Sons Company*

Library of Congress Cataloging-in-Publication Data

Business and society : corporate strategy, public policy, ethics.—9th

ed. / James E. Post, Anne T. Lawrence, James Weber.

p. cm

ISBN 0-07-292447-0 (acid free paper)

Includes bibliographical references and indexes.

1. Social responsibility of business. I. Post, James E. II. Lawrence, Anne T. III. Weber, James.

HD60.B879 1999

658.4/08dc—21

98-17649

<http://www.mhhe.com>

Business and Society

Corporate Strategy, Public Policy, Ethics

Dedication

To William C. Frederick

Scholar, Mentor, Colleague, Friend

**Founder of the field, researcher, and coauthor of
Business and Society fourth through eighth editions**

division of the Academy of Management with the Best Paper Award in 1989 and 1994. He is a member of and has served as division and program chair of the Social Issues in Management division of the Academy of Management; he has also served as president and program chair of the International Association of Business and Society (IABS). In addition, he is a member of and has served in various leadership roles in the Society for the Advancement of Socio-Economics (SASE) and the Society for Business Ethics.

Preface

The relationship between business and society is changing in new and profound ways. At the beginning of the twenty-first century, the global economy is an intricate landscape of social, political and economic entities: highly advanced industrial nations such as the United States, Japan, and Germany; emerging economies in Asia and Latin America; Eastern European economies that are free after decades of political repression; and countries that are still struggling to devise economic strategies that will help produce prosperity and an improved quality of life for their citizens.

The prosperity that accompanies such growth is not shared equally among the countries in each group. Income and quality of life are unevenly distributed. People with education tend to gain a larger share of a nation's wealth than those who lack schooling. Knowledge commands a premium in a world of new and powerful technologies, and education is a powerful source of economic well-being. People who understand the complex interplay of economic, political, and social forces are better able to appreciate the impact of globalization of markets, advances in science, and the changing relationships between humans and nature. As we enter a new century, we are called to understand a very complicated and rapidly changing world. In the midst of this social change, the realities of managing a business are also changing.

Businesses have new roles and new responsibilities in the modern economy. Decisions are not made in the same ways as they were 10 or 20 years ago. The impact of business decisions is felt by more people, in more ways than in an earlier time. And because so many other things have changed in the new global economy, business leaders are required to think more carefully than ever about the effects of their actions on their company's employees, customers, suppliers, and investors. The actions of business are watched carefully by the media, government officials, and the communities in which business is conducted. In a very real sense, the world is watching as business executives chart their companies' future direction.

This new edition of *Business and Society* is about how we as stakeholders—managers, consumers, employees, and community members—try to understand, influence, and shape business behavior and social change. Consider these factors:

- Businesses in the United States and other nations are once again transforming the employment relationship, abandoning practices that once provided job security to employees, in favor of highly flexible but less secure forms of employment. This historic shift in the social contract is driven by complex economic, technological, and social factors.
- The restructuring and redesign of businesses has been driven by vigorous competition in global markets, pressure to improve the quality of products and services, and the creation of information networks that facilitate rapid transfer of economic, social, and political information. Geography, technology, and time once provided buffers that protected companies and people from change. Today, those buffers are disappearing.

- Government policies toward individual industries and sectors of the economy have shaped and reshaped markets for goods and services. International trade policies are now critical to the competitive future of businesses everywhere and to the well-being of more than 5 billion people that now inhabit the earth.
- Ecological and environmental problems have forced businesses and governments to take action. Crises, accidents, and better understanding of how human activities affect natural resources is producing a consensus that environmental protection must be achieved *with* economic growth if development is to be sustainable.
- Public concern is growing about the ethical and moral behavior of business executives and government officials. As standards change, businesses are challenged to understand new public standards and norms, adjust business practices, and reconcile sometimes conflicting ethical messages. Social values differ from country to country, which challenges accepted notions of the moral order. Business executives must operate in many nations whose people hold very different values about the workplace and the marketplace.
- The challenge of corporate responsibility and ethical behavior is made more complex when companies conduct business in countries with very different social and political cultures. Companies are challenged to function in a world community where great differences still exist. For example, China's role as a powerful economic and political actor has produced conflict in light of the country's unwillingness to conform to Western views of human rights. Human rights advocates pressure governments to link trade policies to human rights, while others argue that unfettered trade with China will eventually produce a freer, more democratic Chinese society.
- A host of new technologies have become part of the everyday lives of billions of the world's population. Advances in basic sciences—physics, biology, and chemistry—are stimulating extraordinary changes in agriculture, telecommunications, and pharmaceuticals. The media uses superlatives such as *biotechnology revolution* and the *information age* to convey some of the exciting possibilities that these scientific and technological developments promise. New industries emerge, and new approaches to living and working follow from these advances. But serious public issues also arise, as with genetically cloned animals or use of the Internet for pornographic and exploitative purposes.

This Book

This edition of *Business and Society* addresses this complex agenda of issues and their impact and influence on business and its stakeholders. The authors bring a broad background of business and society teaching, research, and case development to this endeavor. The development of this edition began by asking current users of the book to share their suggestions and insights with the author team. Many recommended changes are integrated into this new edition.

Since the 1960s, when Professors Keith Davis and Robert Blomstrom wrote the first edition of this book, *Business and Society* has maintained a position of leadership by discussing central issues of business performance in a form that students and faculty have found engaging and stimulating. The leadership of Professor Davis and Professor William C. Frederick helped *Business and Society* to consistently achieve a high standard

of quality and market acceptance in the field. Thanks to the authors' remarkable eye for the emerging issues that shape the organizational, social, and public policy environments in which students will soon live and work, the book has added value to the business education of many thousands of students.

The ninth edition of *Business and Society* builds on this legacy of market leadership by reexamining such central issues as the role of business in society, the nature of corporate responsibility, business ethics practices, and the complex roles of government and business in the global economic community. Examples of individuals and companies of all sizes illustrate the concepts, theories, and ideas for action in each topical area.

New Themes

This edition also addresses important new themes in modern business and management education.

- The rise of *cross-disciplinary* teaching has created a need for books that span the breadth of business activity, including strategic and operational management. *Business and Society*, ninth edition, helps meet this need by illustrating how all types of business decisions impact stakeholders within and outside the firm.
- Business schools often teach today's students how to *manage across business functions*. This edition presents examples of companies that have managed social issues across the business functions in a strategic, stakeholder-oriented manner.
- The growth of the *Internet* and the proliferation of *World Wide Web sites* creates new opportunities for students and faculty to enrich courses with information drawn from a nearly infinite universe of sources. A list of useful Web sites is included at the end of each chapter, and many text references include Web site references.

This is a book with a vision. It is not simply a compendium of information and ideas. This ninth edition of *Business and Society* articulates the view that in a global community, where traditional buffers against change no longer protect business from external change, managers *can* create strategies that integrate stakeholder interests, respect personal values, support community development, and are implemented fairly. Most important, these goals can be achieved while also being economically sound and successful.

Acknowledgments

We are grateful for the assistance of many colleagues at universities in the United States and abroad who have made suggestions and shared ideas for this edition. We also note the feedback from students in our classes and from other colleges and universities that have helped make this book as user-friendly as possible. Among the special contributors to this project are Carla Galisin, Boston University; Stephanie Glyptis, Duquesne University; and Carol Anderson and Lisa Iha, San Jose State University, who helped with numerous research and developmental tasks. Sandra Waddock and Michael Ames of Boston College contributed the Unum case study. We also appreciate the efforts of the following reviewers: Leslie Conley, University of Central Florida; Susan Esiner, Ramapo College of New Jersey; Katharine Harrington, University of Southern California; Norma J. Carr-Rufino, San Francisco State University; Joseph Ford, Iona College; David Jacobs, American University; Harvey Nussman, Wayne State University; William Soderman, Southern Indiana University; Kurt Parkum, Pennsylvania State Uni-

versity, Harrisburg; Robert Boewaldt, Georgia College; and Marsha Silverman, University of Miami.

We are grateful to the excellent editorial and production team at Irwin/McGraw-Hill. Special thanks to Karen Mellon, sponsoring editor, for her leadership in this project. Kimberly Hooker, project manager; Linda Huenecke, supplement coordinator; and Steven Gomes, copyeditor have made contributions that we very much appreciate. You have given much meaning to the term *team*.

Finally, we wish to acknowledge the support and inspiration of Keith Davis and Bill Frederick, two pioneers in the business and society field, whose legacy of intellectual and editorial leadership we proudly continue in this edition.

James E. Post
Anne T. Lawrence
James Weber

Introduction and Overview

The book is divided into parts that are organized around major themes. In this introduction, we explain the overall design. Each chapter contains a number of common features designed to enhance student learning.

Part One The Corporation in Society

Readers are introduced to the basic conceptual themes and ideas of the interaction of business and society. Chapter 1 introduces the corporation and its stakeholders and provides a focused way of mapping the relationships between an organization and its stakeholders. The chapter also discusses the central forces that are shaping business and society relations as we move into the new century. The role of the firm in its social, economic, and political setting is discussed.

Chapter 2 introduces a strategic management approach that executives use in dealing with public issues. By understanding the relationship between stakeholder expectations and corporate performance, it is possible to follow the evolution of public issues through a normal life cycle. Business responses to public issues are discussed, with a close look at the corporate public affairs function and the development of issues management systems. The chapter concludes with a discussion of crisis management and ways to strategically manage an organization's stakeholder relations.

Part Two Business and the Social Environment

Chapter 3 discusses public expectation that business will act in a socially responsible manner. This chapter looks at how corporate social responsibility is practiced around the world and the various limits to a firm's social obligations. Balancing its economic, legal, and social responsibilities is a major challenge for modern businesses.

Chapter 4 describes how a socially responsive firm manages its relations with stakeholders. Firms must address environmental forces before shaping a successful social strategy. This chapter provides a model for determining if a firm is acting in a socially responsive manner.

Part Three Business and the Ethical Environment

Chapters 5 and 6 introduce the concept of business ethics. Learning how to recognize ethical issues and understanding their importance to business are emphasized in Chapter 5. International efforts to curtail unethical practices are described. Chapter 6 focuses on business efforts to promote an ethical environment in the workplace. An ethical decision-making framework and ethical safeguards are discussed in this chapter.

Chapter 7 focuses on the powerful global changes are reshaping the business world. The influence of the multinational corporation, demise of communism, emergence of market economies, and the rise of ethnic, religious, and radical forces in the geopolitical world are all shaping the global processes of commerce. The business challenge of acting responsibly, managing issues well, and living by ethical norms is clearly developed for students.

Part Four Business and Government in a Global Society

Chapters 8 and 9 discuss the changing role of government in the global economy, especially its role as a strategist for national economic growth

and social welfare. The many roles and responsibilities of government in advanced industrial nations are explored in comparative form, and the essential roles of governments in developing and newly industrialized countries is also discussed.

Chapter 10 revisits the century-old issue of antitrust in the context of today's rapid technological change and the globalization of markets. As the world economy has changed, policymakers have confronted new challenges in promoting free competition and curbing monopoly power.

Part Five The Corporation and the Natural Environment

Chapters 11 and 12 address the ecological and natural resource issues that will reshape entire industries as the next century unfolds. Rapid population

growth and the explosive development of many of the world's economies have placed new pressures on scarce resources. Water, air, and land pollution have created new constraints for business around the globe. These chapters explore both the challenges and the opportunities presented by the need to move to a more sustainable business model.

Part Six Responding to Stakeholders

The central concepts and themes discussed in earlier chapters are applied to managing rela-

tions with the corporation's primary stakeholders and to a number of emerging social issue areas. Chapter 13 explores the changing roles and responsibilities of stockholders, managers, boards of directors, and other stakeholders in contemporary corporate governance. It also takes up the controversial debate over executive compensation.

Chapter 14 focuses on consumer protection, including such current topics as the social dimensions of advertising, product liability reform, and recent business efforts to use new technologies to communicate more effectively with their customers. It also explores issues of consumer privacy in the new information age.

The role of the corporation in the community is examined in Chapter 15. The chapter looks at business's role in the community, addressing such issues as education reform. The importance of corporate giving, charitable contributions, and employee volunteerism to community life are also discussed.

Chapter 16 focuses on the evolving employee-employer relationship. Governmental influences on this relationship from countries around the world are described in this chapter. Ethical challenges concerning employees' and employers' rights in the workplace are discussed.

Part Seven Social Issues

Chapter 17 addresses the special issue of women at work. Where do women work? To what extent have women moved into the ranks of top management, and do women as a group manage differently than men? This chapter also explores programs companies have developed to support working parents and eliminate sex discrimination.

Chapter 18 is a new chapter that examines technology as a social force. The complex relationships between science, technology, and society are creating numerous ethical and political issues for business. If the information superhighway emerges as experts believe it will, the careers of future managers will be inextricably tied to its features. Technological advances in many other fields promise equally complicated decisions for managers and companies. Business and society will be profoundly affected by this new age of science and technological change.

Case Studies in Corporate Social Policy

The book features nine full-length case studies, including a number of new cases prepared especially for this edition. The cases are written to provide rich discussion material and present a variety of opportunities for instructors to connect topics raised across individual chapters.

Brief Contents

Preface xix

Introduction and Overview xxiii

PART ONE

The Corporation in Society

- 1** The Corporation and Its Stakeholders 2
- 2** Business and Public Issues 30

PART TWO

Business and the Social Environment

- 3** Corporate Social Responsibility 56
- 4** Socially Responsive Management 78

PART THREE

Business and the Ethical Environment

- 5** Ethical Dilemmas in Business 96
- 6** Ethical Reasoning and Corporate Programs 119
- 7** Global Challenges to Corporate Responsibility 144

PART FOUR

Business and Government in a Global Society

- 8** The Corporation and Public Policy 170
- 9** Managing Business-Government Relations 197
- 10** Antitrust, Mergers, and Global Competition 218

PART FIVE

The Corporation and the Natural Environment

- 11** Ecology, Sustainable Development, and Global Business 242
- 12** Managing Environmental Issues 264

PART SIX

Responding to Stakeholders

- 13** Stockholders and Corporate Governance 288
- 14** Consumer Protection 309
- 15** The Community and the Corporation 330
- 16** The Employee-Employer Relationship 358

PART SEVEN

Social Issues

- 17** Women, Work, and the Family 384
- 18** Technology as a Social Force 406

Case Studies in Corporate Social Policy

- Odwalla, Inc., and the E. Coli Outbreak 426
- Unum Corporation and the Maine Coalition for Excellence in Education 437
- Personal Ethics Dilemmas 446
- Shell Oil in Nigeria 450
- The Tobacco Deal 461
- The Spotted Owl, the Forest Products Industry, and the Public Policy Process 472
- Doing Business in the Maquiladoras: A Shareholder Challenge 482
- Dow Corning and the Silicone Breast Implant Controversy 491
- Save Our Cities: Business and the Community 502

Contents

Preface xix

Introduction and Overview xxiii

PART ONE

The Corporation in Society

1

The Corporation and Its Stakeholders 2

Business-Government-Society: An Interdependent System 5

A Systems Perspective 5 • The Stakeholder Concept 7 • The Three-Legged Stool 7 • Primary and Secondary Stakeholders 9 • Stakeholder Interests and Power 11 • Stakeholder Coalitions 12

Forces Shaping Business-Society Relations 13

Force 1: Strategic and Social Challenges 13 • Force 2: Ethical Expectations and Public Values 16 • Force 3: Global Economic Change 17 • Force 4: The Changing Role of Government and Public Policy 20 • Force 5: Ecological and Natural Resource Concerns 23 • Force 6: Technology and New Knowledge 24

Corporate Strategy for the Twenty-First Century 25

Summary Points of This Chapter 26

Key Terms and Concepts Used in This Chapter 26

Internet Resources 27

Discussion Case: Inland National Bank 27

2

Business and Public Issues 30

Why Public Issues Matter 32

Emergence of Public Issues 32

The Performance-Expectations Gap 32

The Public Issue Life Cycle 33

Phases of the Public Issue Life Cycle 33 • Continuing Issues 38

The Public Affairs Function 38

Managing Issues 42

The Process 42 • Managing a Single Issue 44 • Managing Multiple Issues 45

Crisis Management 45

What Is a Crisis? 46

Strategic Management of Stakeholder Relations 48

Strategies of Response 49

Summary Points of This Chapter 50

Key Terms and Concepts Used in This Chapter 51

Internet Resources 51

Discussion Case: McDonald's Plays Tough in UK 51

PART TWO

Business and the Social Environment

3

Corporate Social Responsibility 56

The Meaning of Corporate Social Responsibility 58

The Many Responsibilities of Business 58 • Social Responsibility and Corporate Power 58

How Corporate Social Responsibility Began 59

The Charity Principle 60 • The Stewardship Principle 61

Modern Forms of Corporate Social Responsibility 61

Corporate Philanthropy 62 • Corporate Employee Volunteerism 62 • Corporate Awards for Social Responsibility 65

Corporate Social Responsibility Around the World	66
The Limits of Corporate Social Responsibility	68
Legitimacy 69 • Costs 69 • Efficiency 69 • Scope and Complexity 69	
Balancing Economic, Legal, and Social Responsibilities	70
Enlightened Self-Interest 71 • Economic Obligations and Social Responsibility 71 • Legal Requirements versus Corporate Social Responsibility 72 • Stockholder Interests versus Other Shareholder Interests 73	
Summary Points of This Chapter	74
Key Terms and Concepts Used in This Chapter	75
Internet Resources	75
Discussion Case: Cummins Engine Company	75

4

Socially Responsive Management 78

The Corporate Social Climate	79
Formulating Socially Responsive Strategies	81
The Macroenvironment of Business 81 • Scanning and Environmental Analysis 83	
Implementing Social Responsiveness	84
A Model of Corporate Social Responsiveness 85 • Framework for Social Policy 87	
Becoming a Socially Responsive Firm	88
Top Management Philosophy 88 • Socially Responsive Strategy 89 • Socially Responsive Structure 89 • Line-Manager Involvement 90	
Corporate Social Audits	90
Modern-Day Social Assessment 91	
Summary Points of This Chapter	92
Key Terms and Concepts Used in This Chapter	92
Internet Resources	93
Discussion Case: Aaron Feuerstein—A Socially Responsive Owner	93

PART THREE

Business and the Ethical Environment

5

Ethical Dilemmas in Business 96

The Meaning of Ethics	97
What Is Business Ethics? 98 • Why Should Business Be Ethical? 99	
Business Ethics across Organizational Functions	101
Accounting Ethics 102 • Financial Ethics 104 • Marketing Ethics 104 • Information Systems Ethics 106 • Other Functional Areas 106	
Why Ethical Problems Occur in Business	107
Personal Gain and Selfish Interest 108 • Competitive Pressures on Profits 108 • Business Goals versus Personal Values 109 • Cross-Cultural Contradictions 110	
Ethics in a Global Economy	111
Efforts to Curtail Unethical Practices 112	
Ethics, Law, and Illegal Corporate Behavior	113
Corporate Lawbreaking and Its Costs 115	
Summary Points of This Chapter	116
Key Terms and Concepts Used in This Chapter	116
Internet Resources	116
Discussion Case: Unethical Practices at Daiwa Bank	117

6

Ethical Reasoning and Corporate Programs 119

The Core Elements of Ethical Reform	120
Managers' Goals and Values 120 • Personal Character, Spirituality, and Moral Development 122 • Corporate Culture and Ethical Climates 126	
Analyzing Ethical Problems in Business	128
Utility: Comparing Benefits and Costs 129 • Rights: Determining and Protecting Entitlements 130 • Justice: Is It Fair? 131 • Applying Ethical Reasoning to Business Activities 132	

Making Ethics Work in Corporations 132
 Building Ethical Safeguards into the Company 134 •
 Comprehensive Ethics Programs 139 • Corporate Ethics
 Awards 139

Summary Points of This Chapter 140

Key Terms and Concepts Used in This Chapter 140

Internet Resources 140

Discussion Case: Levi Strauss & Co. in
 China 141

7

Global Challenges to Corporate Responsibility 144

Globalization of Business 146
 Drivers of Globalization 146

Doing Business in a Diverse World 147
 A World of Diversity 148

Basic Types of Socioeconomic Systems 148
 Free Enterprise 150 • Central State Control 150 • Mixed
 State and Private Enterprise 152 • Militarized
 Nondemocratic Systems 153 • The New World Economic
 Order 154

The Global Business Enterprise 154
 Size, Power, and Accountability 156

National Sovereignty and Corporate Power 158

**Political and Social Challenges of Doing Business
 Abroad** 158
 Political Challenges 158 • Social Challenges 160 •
 Questionable Payments 161 • Labor Standards 162 •
 Human Rights 163

Corporate Social Strategy 165

Summary Points of This Chapter 165

Key Terms and Concepts Used in This Chapter 166

Internet Resources 166

Discussion Case: General Electric in
 Hungary 166

PART FOUR

Business and Government in a Global Society

8

The Corporation and Public Policy 170

Public Policy 172

What Is Public Policy? 172 • Powers of
 Government 172 • Elements of Public Policy 173

Public Policy and Business 174

National Economic Growth 174 • Taxation Policy 177 •
 Trade Policy 178 • Industrial Policy 179

Social Welfare Policies 180

Health Policy 180 • Social Security 182 •
 Entitlements 183

Government Regulation of Business 183

Goals and Objectives 183 • Types of Regulation 185

Problems of Regulation 186

The Costs of Regulation 186 • Effectiveness of
 Regulation 188 • Reinventing Government 191

International Regulation 191

Regulation of Imported Products 191 • Regulation of
 Exported Products 192 • Regulation of International
 Business Behavior 193

The Future 193

Summary Points of This Chapter 194

Key Terms and Concepts Used in This Chapter 194

Internet Resources 194

Discussion Case: Food Safety in the United
 States 195

9

Managing Business-Government Relations 197

**Strategic Management of Government
 Relations** 199

Techniques of Political Action 200 • Political
 Involvement 201 • Managing the Political Agenda 202 •
 Corporate Political Strategy 203