

SOCIAL ISSUES IN BUSINESS

**Strategic and Public
Policy Perspectives**

FIFTH EDITION

**Fred Luthans
Richard M. Hodgetts
Kenneth R. Thompson**

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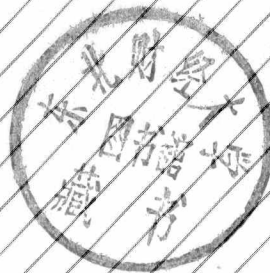
Strategic and Public Policy Perspectives

FIFTH EDITION

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Preface

The social role of business continues to evolve, but at a faster, more dynamic pace. This more rapid rate of change is reflected by the fact that we have moved from a four-year to a three-year cycle for the editions of this book. Waiting four years before coming out with a new edition was just too long. Things are moving too quickly. The social issues that emerged from the turbulent 1960s (first and second editions of this text), that then began to mature and come of age in the middle 1970s (third edition) and into the 1980s (fourth edition), have now reached a new stage in the middle/late 1980s (this new, fifth edition). About all that remains in this new edition from the book that first came out fifteen years ago is some of the historical foundation. In fifteen short years, the social role of business has changed that much. Not many other fields of study can make that claim.

The major social issues of equal opportunity in employment, employee rights and justice, quality of work life, consumerism, and environmental protection have changed in both emphasis and content. Both business and society recognize that we live in a world of scarce resources in which human values take precedence over material values, a situation reflected in the heightened awareness of both managers and the public of the social responsibility of business. The general public, whose will is eventually expressed through government legislation and enforcement, is making demands on business. This pressure, of course, is nothing new. Through the years the nation's businesses have been buffeted on all sides by competition, government regulation, and powerful labor unions. Companies have found that they are as susceptible to the ominous Darwinian law as are the smallest organisms; only the fittest survive. Those who have survived, however, are not guaranteed a future. The question now facing business firms is whether they can adapt to the new demands of their social role.

Besides the now familiar social issues, the middle 1980s and beyond reveal

a much expanded social role for business. In particular, business firms have assumed a broader responsibility; have become, and in many cases have been forced to become, more interested in ethical conduct; have begun to realize that they are living in a shrinking world, and must compete in the international arena; and have begun to plan, implement, and control their social performance more effectively. This fifth edition reflects this new stage in the social role of business.

The book contains five parts. Part I provides a foundation for the modern social role of business, and its four chapters contain a strategic management view of the business-society interface, a historical foundation, a political-economic framework, and a discussion of the ethical conduct of business. Part II is devoted to the role of government in business, with a new chapter on government and public policy and revised chapters on the impact of government on the social role of business and the role of public policy in moderating the power of business. Part III is the heart of the book, with chapters on the major social issues facing business: equal opportunity in employment, employee rights and justice, quality of work life, consumerism, and environmental protection. Part IV recognizes the expanded role and accompanying challenges facing modern business, with a new chapter on business in the international arena, and revised chapters on the broader responsibilities of business and individual social activism. The concluding Part V has three chapters on managing and controlling corporate social performance. There are separate chapters on planning, implementing, and measuring this social performance.

In addition to a significantly revised conceptual framework, this new edition contains three new chapters: Chapter 5, Government and Public Policy; Chapter 9, Employee Rights and Justice Systems, and Chapter 14, Business in the International Arena. There are also new and/or greatly expanded sections in other chapters. Because the book continues to feature topical issues, almost all the statistics, legal actions, and examples have been replaced, expanded, modified, or updated. In addition, there are many new cases/incidents at the end of the chapters and a new feature of this edition—longer case studies for the major parts of the text. These longer cases permit in-depth analysis and the chance to get more realistically involved in the social challenges facing business.

The total package of text, cases, and incidents is intended to be used in business and society (environment) courses and social issues (responsibility) in business courses at the undergraduate or graduate level. It can be used alone or with other materials. In addition, it can be used in such courses as introduction to business, principles of management, business policy, legal environment in business, or an introductory survey course in business administration. Practicing managers should also appreciate this book's attention to the identification and analysis of their social responsibilities. Part V, "Managing and Controlling the Social Performance of Business," should be especially valuable to practicing managers.

We hope this book contributes to an understanding of the important social role of business. How today's managers respond to these tremendous social challenges may well determine the very survival of the business institution in its present form.

We accept responsibility for any defects in the book but acknowledge that any book, including ours, is the product of many others. We are especially grateful to the following individuals who reviewed and gave us helpful feedback on this revision: Jeffrey Lenn, George Washington University; Wilmar F. Bernthal, University of Colorado, Boulder; Richard Pesta, Frostburg State University; Robert Raspberry, Southern Methodist University; Caryn Beck-Dudley, Utah State University; Douglas Fox, Western Connecticut State University; Bernard Goitein, Our Lady of the Lake University; Raymond Vegso, Canisius College; Pamela Stepanovich, Kutztown College.

Finally, we would like to thank our families for their understanding and support.

Fred Luthans
Richard M. Hodgetts
Kenneth R. Thompson

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**PART
I**

**Foundation for the
Social Role of Business**

CHAPTER

1

Business and Society— A Strategic Management Perspective

Chapter Objectives

- To set the perspective for the important role that business plays in society both economically and in terms of quality-of-life dimensions.
- To review the strategy formulation process used by business to determine its social role.
- To identify the various power groups that attempt to influence business decisions and strategy formulation.
- To trace the importance of the chief executive officer in creating the guiding vision that directs the organization toward social responsibility.
- To identify problems associated with defining the social role of business.

A few years ago, Johns-Manville, a large, prestigious corporation, culminated an 80-year history by filing for bankruptcy. The problems came to a head when more than \$2 billion in suits had been filed against the company from those whom had suffered serious illness or death from its major product—*asbestos*. More recently, leaking toxic gas from a Union Carbide pesticide plant killed about 2,500 unsuspecting citizens of Bhopal, India, and provoked more than \$100 billion in law suits. If that was not bad enough, there was

another toxic leak in a Union Carbide plant in Institute, West Virginia, that sent 135 people to the hospital and prompted another \$88 million in suits.

How did these tragedies occur? What role did the companies play in these tragedies? Could the tragedies have been prevented? The answers to these questions are not easy. Sure it is easy to point the finger in these particular examples, but realistically, Manville or Union Carbide may only be isolated examples of what *Time* magazine called “a modern parable of the risks and rewards originally engendered by the Industrial Revolution: Frankenstein’s wonder becoming Frankenstein’s monster.”¹ The entire business community in modern times has found itself on that thin line between “wonder” and “monster.” As the chapters of this book unfold, the relationship between business and society will become clearer and hopefully, some of the answers of the appropriate social role of business will emerge.

The starting point in understanding and analyzing business and society is with management strategies and policies. Strategic management can be defined in many ways. Some example definitions include:

That set of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives.²

The process of managing the pursuit of organizational mission while managing the relationship of the organization to its environment.³

The formulation and implementation of plans and the carrying out of activities relating to matters which are of vital, pervasive, or continuing importance to the total organization.⁴

Thus strategic management assesses current environmental opportunities and threats and how the organization can best meet those environmental conditions. The purpose of strategic management is to build an organization that will accentuate its strengths and reduce its vulnerabilities in order to survive and prosper in an often turbulent and hostile environment.

In this introductory chapter we use the strategic management and planning function as an overall perspective for the social role of business and to analyze the various constraints and opportunities that society imposes on business. After first defining the role of business in society from two perspectives—economics and the quality of life—the nature and steps of strategy formulation are presented. The final part of the chapter deals more specifically with business strategies toward social responsibility.

¹*Time*, December 17, 1984, p. 20.

²William F. Glueck, *Business Policy and Strategic Management* (New York: McGraw-Hill, 1980), p. 6.

³James M. Higgins, *Organizational Policy and Strategic Management* (Chicago: Dryden, 1983), p. 3.

⁴Arthur Sharplin, *Strategic Management* (New York: McGraw-Hill, 1985), p. 6.