

Fifth Edition

# BUSINESS ENVIRONMENT AND PUBLIC POLICY

IMPLICATIONS FOR MANAGEMENT



Rogene A. Buchholz

# **Business Environment and Public Policy**

# Preface

During the last several decades, there has been a dramatic change in the environment in which business functions. New roles have been defined for business to perform in society as an increasing amount of attention has been devoted to social issues such as pollution control, workplace safety and health, equal opportunity, and product quality and safety. These concerns have resulted in a proliferation of new laws and regulations that restrict or redirect business activities that are seen to affect society in an adverse manner. The long-term effect of these directives is a dramatic change in the “rules of the game” by which business is expected to operate. These rules have become institutionalized and affect business organizations in many ways whether a “liberal” or “conservative” administration is in office. Thus, the business institution has been reshaped to meet these new responsibilities and is continually changing to respond to new social issues.

This changing role of business in society, has, of course, made an impact on the managerial task within corporations. Managers have had to take social and political considerations into account in their planning and operational decisions. Increasingly, these concerns are becoming a part of routine business operations in most corporations. Many managers have changed the way in which they view their responsibilities to society. Recent years have seen the emergence of new theories of management such as the stakeholder model that include social and political concerns and are thus broader than any narrow economic interpretation of the firm and its responsibilities.

Business schools responded to this changing role of business in society by introducing courses with titles like Business and Society, Business and Its Environment, Business and Public Policy, and The Legal Environment of Business. Other schools have integrated social and political factors into their business policy and/or functional courses. Still others have developed courses dealing with government regulation of business. In addition, traditional courses in business and government, public policy, and current economic problems have been expanded to include social and political concerns.

There are various ways to approach these social and political factors and to integrate them into a managerial framework. This textbook is one of the few in the field to use the concept of public policy to integrate the material. It is believed that the public policy concept provides a much more comprehensive framework for the field and allows for much better integration of topics that are usually considered to be within the domain of Business and Society courses. The public pol-

icy concept is much more consistent with what has actually happened in our society with respect to government regulation and other public policy measures. It also provides clearer guidelines for management in terms of corporate behavior presently required by the new “rules of the game” as well as for the courses of action management has open to help shape the environment in which business functions. Thus, the public policy concept is managerially oriented and provides a useful framework to discuss the impact of social and political issues on business and management’s response to these issues.

The importance of public policy to business executives and management students can hardly be overestimated. Indeed, it seems fair to say that the 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 trade policies, environmental regulation, subsidies, and tax measures. Beyond the industry level, the fate of individual companies is often in the hands of government due to the need for a government contract or for a guaranteed government loan. Learning to understand the external environment, and to consider its impact in making management decisions, has become a necessary skill for every successful manager. No successful business decision today can be based solely on a traditional business rationale.

Because public policy is so important, it is necessary for business executives and students to have some knowledge of what public policy is and how it is formulated. Knowledge of how public policy shapes the business environment is important to analyze the impact specific measures might make 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 responsible position for corporate management to take vis-à-vis stockholders, employees, consumers, or the public at large.

This book, which is designed to meet these needs for education about public policy, is intended for use in a comprehensive management course dealing with broad environment matters of concern to business and management. It treats the political, social, economic, legal, ethical, and other environments of business and thus is designed to meet the American Assembly of Collegiate Schools of Business (AACSB) requirement for subject matter that deals with the broader environmental context of business. It could be used very nicely with a casebook that would illustrate concretely some of the theoretical material and issues contained in the text. The book can also be used in more specialized courses dealing with government regulation or business-government relations. Because of its managerial focus, it should also be of value to managers of business corporations and executive development programs, serving as a handbook of public policy requirements and business involvement in public policy formulation. Finally, the book can also be used

in schools of public administration that have courses focusing on public policy and its impact on business organizations.

The figure in this preface shows the overall organization of the book. It is organized into five major parts, which is a major structural change from previous editions. The first part deals with introductory material related to the changing business environment, its impact on business and management, and the emergence of public policy as a new and important concern of management. This part is intended to give students an overview of the area and some acquaintance with the issues that will be discussed throughout the course.

The second part discusses the nature of public policy itself, the broad social influences on public policy, and the political context in which public policy is formulated and implemented in our society. The first chapter in this part deals with definitional and conceptual material related to public policy to provide some intellectual foundations for subsequent discussions. An historical overview of major developments in public policy and business is presented in the next chapter to provide an historical dimension to the issues and influences that give rise to public policy measures in our society. The social context of public policy is next discussed to give the reader an idea of how public issues that may eventually result in formal public policy originate in our society. Finally, the nature of business-government relations is discussed, showing in detail the various roles that government plays in the American economy. This material should give the reader a better understanding of the social and political context in which business functions in our society.

The third part treats specific public policy issues that affect business corporations. These issues can be divided into “macro” issues that affect the entire business in some fashion, and “micro” issues that affect specific segments of business operations. The former includes issues related to government regulation, anti-trust, corporate governance, and a discussion of the distribution of wealth and extent of poverty in our society. The latter includes equal employment opportunity and occupational safety and health that relate to the workplace, consumer protection issues that concern the marketplace, and pollution issues that are related to the physical environment.

It must be noted that macro economic issues such as employment and inflation are also public policy issues that affect business and could legitimately be included in this section. Equally important are labor issues related to collective bargaining, productivity, and product quality. These issues, however, form the basis for entire fields of study in their own right, as the study of macroeconomic policy and industrial relations has developed an extensive body of literature over the years. These issues are therefore discussed in other parts of the curriculum and cannot be adequately covered in a book of this nature.

The fourth part deals with the ethical and international dimensions of public policy, which have been placed together at this point in the text so that the resolution of issues and the development of strategy will take these dimensions into account. Instead of being placed in other parts where they do not quite fit, these chapters now constitute a separate part that stands between the consideration of public policy issues and the development of corporate responses. All the

issues considered in the third part have ethical dimensions and must also be considered in an international context. It is hoped that the development of strategy will take these dimensions into account.

The last part deals with management responses to public policy issues within the context of strategic management. The concept of strategic management is discussed as an overall framework within which to view the development of specific responses to public issues that affect the corporation. Included in this chapter is a discussion of social measurement and reporting, an all-important topic that deals with determining the social performance of corporations. The process of public issues management is treated in the next chapter to familiarize the reader with an evolving function within corporations through which management's response to public issues that affect the corporation is formalized. The political strategies or tactics that can be adopted for public policy participation are the subject of the following chapter. 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.

All chapters in the fifth edition have been updated with new material and in some cases restructured and reorganized. Several chapters have been extensively revised. The chapter previously called Business-Government Relations has been renamed The Political Context of Business and has been extensively revised to include more institutional material on government. This renaming and revision integrate this chapter better with the chapter on the Social Context of Business and focuses more on the public policy aspects of government actions to be more consistent with the theme of the book. The chapter on business ethics has been extensively revised to correspond more closely with the thrust of the entire textbook and includes a discussion of the nature of ethics in business and of factors, including ethics codes, important in creating an ethical organization. There is a much better balance between ethical theory and more practical concerns in this chapter than existed in previous editions.

The chapter on international dimensions of public policy has been revised to broaden the discussion of public policy issues and take into account the international environment and public policy issues that face multinational corporations. The chapter includes a discussion of the ethics of multinationals and international environmental problems, including the so-called global problems, the export of hazardous wastes, and the environment's impact on trade agreements. In keeping with this international thrust, the chapter on public issues management contains a discussion of the public affairs function in an international context to give students an idea that issues management applies to public policy issues internationally as well as domestically. Many of the same techniques of analysis presented in this chapter can be used for issues that multinationals face in their international environment.

Features that have been retained from the fourth edition include the case material at the beginning and end of the chapters. All chapters start with a brief story of an actual incident involving business organizations. These incidents illustrate some of the main themes of the chapter. For example, regarding the ethics chapter, the story of Beech-Nut Corporation raises ethical issues that can be analyzed



using some of the material in the chapter. In the strategic management chapter, the story of Braniff Airlines raises some strategic issues regarding management decisions. These stories help the student to relate the material in the chapter to some concrete incidents and provide an opportunity to apply theories and concepts to actual situations.

Most of the chapters are also followed by short cases that can serve as the basis for discussion or be assigned as class projects. These cases are fictitious but illustrate some points made in the chapter and give students the opportunity to apply the material in the chapter to solve a business problem. The addition of these cases at both the beginning and end of the chapter should increase the usefulness of the book and provide more opportunities for class discussion. For instructors who want to use more extensive case material, another book, such as that written by the author as a complement to this textbook, will have to be used as a supplemental text.

Each chapter retains the use of tables and exhibits to illustrate and amplify the text material. The use of extracts from other sources is also retained to illustrate and amplify certain parts of the discussion. These extracts are set in boxes to separate them from the textual material and bring them to the student's attention. Discussion questions are included at the end of each chapter to focus student's attention on important points and to stimulate discussion. Instructors can use these questions to supplement their lectures or classroom discussions by having students use them to prepare for class. The questions might also be useful for examinations. Each chapter concludes with suggestions for further reading. These readings can be used for research papers or for class presentations that students may be required to make. Students can be assigned some of these readings to broaden their knowledge in a particular area of interest.

The book is also accompanied by a teacher's manual. This manual includes a statement about the purpose or objectives of each chapter, a chapter outline, a brief summary or overview of each chapter, a brief discussion of the case at the beginning of the chapter, specific suggestions to instructors as to how they might treat the subject matter in a classroom situation, and short-answer and multiple-choice questions that can be used for examinations. Sample examinations are also included at the end of the manual as well as transparency masters of some of the more important tables and illustrations that will be useful in making transparencies for an overhead projector. This manual should facilitate teaching of the material in the classroom and testing of the students knowledge of the business environment and public policy as well as their importance to management.

Thanks are due to many people who were influential in the writing of this book. The intellectual debt of any author is enormous, and only a few can be singled out who have made special contributions to the intellectual development of the author. 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 for 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. Lee Preston also helped with

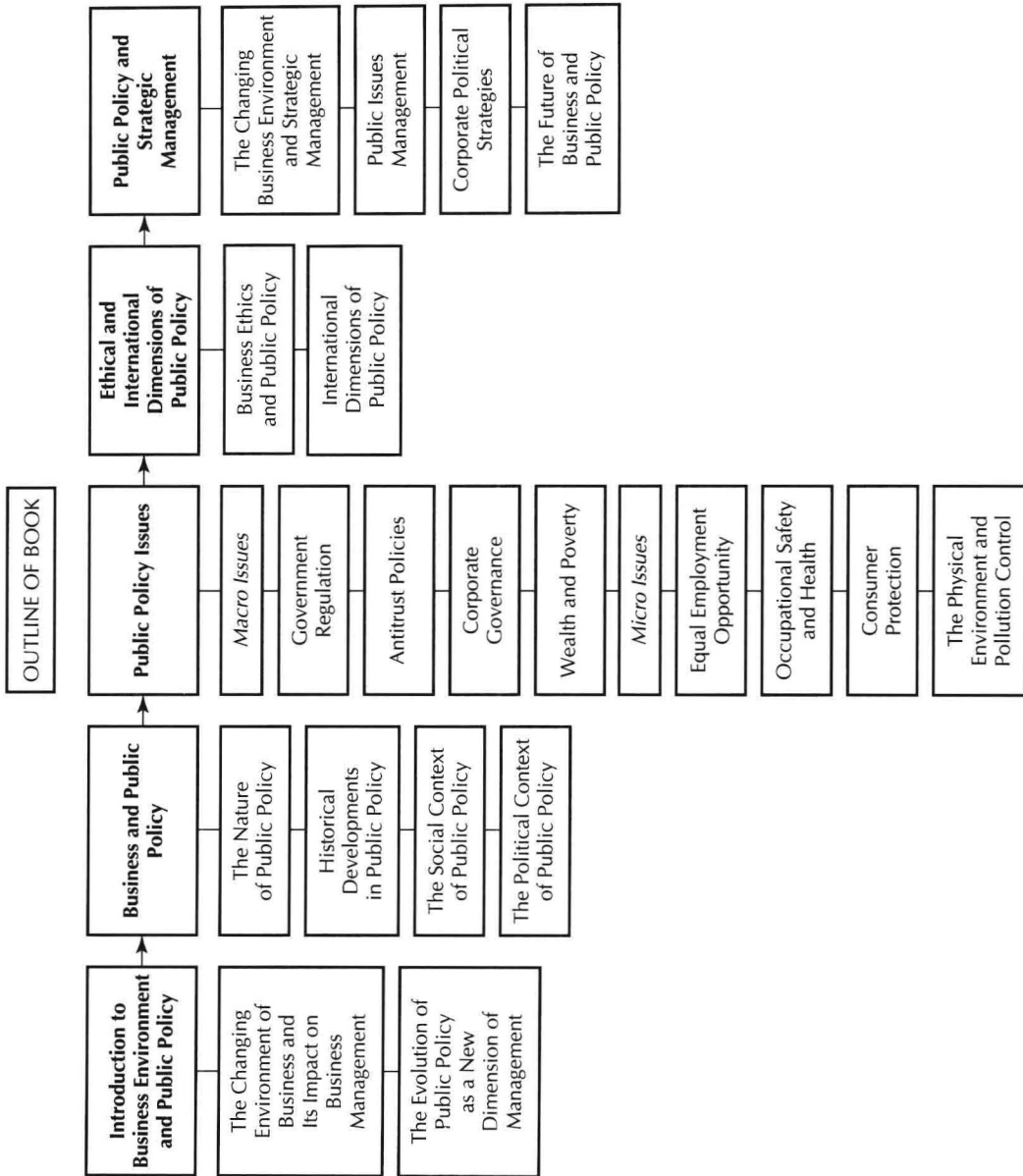
specific comments about reorganization of the book as well as some of the chapters.

Equally influential was Murray L. Weidenbaum, with whom I worked 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 impact public policy makes on business in the form of government regulation. My work with the AACSB, which, along with the CSAB, sponsored the study of the Business Environment/Public Policy field that I conducted, acquainted me with many aspects of the public policy dimension of management as it was being handled by corporations and schools of business and management around the country.

The reviewers of the first draft of this revision deserve thanks for making many helpful suggestions for improving the content and readability of the book. The people at Prentice-Hall with whom I worked, especially Alison Reeves, the former editor of *Management*, and Natalie E. Anderson, the current editor, along with Lisamarie Brassini, the assistant editor of *Management*, provided a great deal of assistance and encouragement at every step of the process. Their interest in this project is greatly appreciated. The support and interest of my colleagues and the Dean at the College of Business Administration at Loyola University at New Orleans, where this fifth edition was prepared, are greatly appreciated. My wife was also very understanding in supporting me in this project, which took time away from other activities. Finally, my students deserve credit for many helpful suggestions on how to improve the book for educational purposes. Throughout my career, I have been fortunate to have had many good students in my classes, and they have provided inspiration for the writing of this book and constitute the ultimate test of its educational value.

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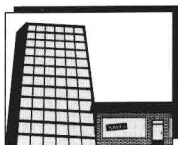
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# The Changing Environment of Business and Its Impact on Business and Management

*You are all aware that business management today is engaged in activities, problems and decisions that were virtually unheard of a generation ago. If you were to ask the heads of the nation's top 300 companies what factors would have the greatest influence on the future of their businesses in the coming decade, I suspect the vast majority would say government and the force of public opinion on public policy. All of our skills at managing—financial, manufacturing, marketing, research and development and the like—all these put together will not influence our destiny as much as what happens in political and economic arenas. As a consequence, managers of big institutions—whether they be presidents of corporations, universities, foundations or government agencies—must spend more time trying to understand and influence external affairs than they spend on the more traditional job of internal management.<sup>1</sup>*

## Manville Corporation

On August 26, 1982, Denver-based Manville Corporation, a diversified manufacturing, mining, and forest products company, filed for bankruptcy under Chapter 11 of the Federal Bankruptcy Act to protect itself from the overwhelming number of product liability lawsuits relating to the manufacture and use of asbestos. The company decided to seek protection after a study showed that Manville faced a potential total of fifty-two thousand lawsuits at a projected cost of around \$2 billion, which was nearly twice the company's net worth.<sup>2</sup> The president of the company, John A. McKinney, said that the company's businesses were in good shape