

# Business and Society

**Stakeholders, Ethics, Public Policy**

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**Stakeholders, Ethics, Public Policy**

*Twelfth Edition*

**Anne T. Lawrence**

BUSINESS AND SOCIETY: STAKEHOLDERS, ETHICS, PUBLIC POLICY

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In a world economy that is becoming increasingly integrated and interdependent, the relationship between business and society is becoming ever more complex. The globalization of business, the emergence of civil society organizations in many nations, and new government regulations and international agreements have significantly altered the job of managers and the nature of strategic decision-making within the firm.

At no time has business faced greater public scrutiny or more urgent demands to act in an ethical and socially responsible manner than the present. Consider the following:

- The corporate scandals of the 2000s—from accounting fraud at Enron and WorldCom, to lapses of governance at Hewlett-Packard, to stock options scams in hundreds of firms across multiple industries—continue to focus a spotlight on issues of business responsibility and ethics. Around the world, people and governments have demanded that executives do a better job of serving shareholders and the public. New laws, like the Sarbanes-Oxley Act in the United States, have raised the standards for corporate governance, but have also raised questions about the proper scope of government oversight. Management educators are placing renewed emphasis on issues of business leadership and accountability.
- A host of new technologies have become part of the everyday lives of billions of the world's people. Advances in the basic sciences are stimulating extraordinary changes in agriculture, telecommunications, and pharmaceuticals. Businesses can now grow medicine in plants, embed nanochips in tennis rackets, and communicate with customers overseas over the Internet and wireless networks. These innovations hold great promise. But they also raise serious ethical issues, such as those associated with genetically modified foods, stem-cell research, or use of the Internet for pornographic purposes or to censor free expression. Businesses must learn to harness new technologies, while avoiding public controversy and remaining sensitive to the concerns of their many stakeholders.
- Businesses in the United States and other nations are transforming the employment relationship, abandoning practices that once provided job security and guaranteed pensions in favor of highly flexible but less secure forms of employment. Many jobs, including those in the service sector, are being outsourced to the emerging economies of China, India, and other nations. As jobs shift abroad, transnational corporations are challenged to address their obligations to workers in far-flung locations with very different cultures—and to

respond to initiatives, like the United Nation's Global Compact—that call for voluntary commitment to labor and human rights.

- **Ecological and environmental issues have forced business and government to lead in an emerging consensus about the risks of global warming from global climate change. Many companies and private citizens have joined the Kyoto Protocol. Many businesses are improving their environmental records and products to become energy efficient. A better understanding of how human activities affect natural ecosystems is producing a consensus that environmental protection must be a central theme in economic growth and development.**
- Many regions of the world are developing at an extraordinary rate. Yet, the prosperity that accompanies economic growth is not shared equally. Personal income, health care, and educational opportunity are unevenly distributed among and within the world's nations. The tragic pandemic of AIDS in sub-Saharan Africa and the threat of an avian flu epidemic have compelled drug makers to rethink their pricing policies and raised troubling questions about the commitment of world trade organizations to patent protection. Many businesses must consider the delicate balance between their intellectual property rights and the urgent demands of public health, particularly in the developing world.
- In many nations, legislators have questioned business's influence on politics. Business has a legitimate role to play in the public policy process, but it has on occasion shaded over into undue influence and even corruption. In the United States, recent reforms of campaign finance and lobbying laws have changed the rules of the game governing how corporations and individuals can contribute to and influence political parties and public officials. Businesses the world over are challenged to determine their legitimate scope of influence and how to voice their interests most effectively in the public policy process.

This new edition of *Business and Society* addresses this complex agenda of issues and their impact on business and its stakeholders. It is designed to be the required textbook in an undergraduate or graduate course in Business and Society; Business, Government and Society; Social Issues in Management; or the Environment of Business. It may also be used, in whole or in part, in courses in Business Ethics and Public Affairs Management. This text is also appropriate for an undergraduate sociology course that focuses on the role of business in society or on contemporary issues in business.

The core argument of this book is that corporations serve a broad public purpose: to create value for society. All companies must make a profit for their owners. Indeed, if they did not, they would not long survive. However, corporations create many other kinds of value as well. They are responsible for professional development for their employees, innovative new products for their customers, and generosity to their communities. They must partner with a wide range of individuals and groups in society to advance collaborative goals. In this book's view, corporations have multiple obligations, and all stakeholders' interests must be taken into account.

## A Tradition of Excellence

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 corporate social performance in a form that students and faculty have found engaging and stimulating. The leadership of the two founding authors, and later of Professor William C. Frederick and James E. Post, helped *Business and Society* to achieve a consistently high standard of quality and market acceptance. Thanks to these 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.

This book has continued through several successive author teams to be the -market-leader in its field. The current authors bring a broad background of business and society research, teaching, consulting, and case development to the ongoing evolution of *Business and Society*. The twelfth edition of *Business and Society* builds on its 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 a global community.

## For Instructors

For instructors, this textbook offers a complete set of supplements. An extensive instructor's resource manual—fully revised for this edition—includes lecture outlines, discussion case questions and answers, tips from experienced instructors, and extensive case teaching notes. A computerized test bank and power point slides for every chapter are also provided to adopters. A video supplement, compiled especially for the 12<sup>th</sup> edition, is comprised of recent segments from the Public Broadcasting Service's news program, *The News Hour with Jim Lehrer*. These may be used to supplement class lectures and discussions.

*Business and Society* is designed to be easily modularized. An instructor who wishes to focus on a particular portion of the material may select individual chapters or cases to be packaged in a Primis custom product. Sections of this book can also be packaged with other materials from the extensive Primis database, including articles and cases from the Harvard Business School and *BusinessWeek*, to provide exactly the course pack the instructor needs.

Adopting instructors can access PageOut, McGraw-Hill's online Web site, or PageOut, this instructor's only fully featured professional course Web site. PageOut can be adopted as a business assignment, McGraw-Hill Online Learning Center, Book content, list of resources, and instructor's site in the legal book. Instructors may also use PageOut as a course management system, a course with college up to digital files.

For instructors who have the text and the new professional format, this may be done by using McGraw-Hill's Book Technology. Books can be customized with the addition of materials. Primis's extra solution.

## For Students

This textbook has long been popular with students because of its lively writing, up-to-date examples, and clear explanations of theory. *Business and Society* has benefited greatly from feedback over the years from thousands of students who have used the material in the authors' own classrooms. Its strengths are in many ways a testimony to the students who have used earlier generations of this text.

This book is designed to be user-friendly. Each chapter opens with a key learning objective to help students understand the focus of the chapter and to help them identify the key concepts and terms. A glossary at the end of the book provides definitions for the key terms and their importance. In addition, a list of key terms is provided at the end of each chapter to help students identify key terms and concepts. The book also includes a list of key terms at the end of each chapter to help students identify key terms and concepts.

This latest edition of *Business and Society* comes with several supplements designed specifically for students. McGraw-Hill's Online Learning Center (OLC) is a Web site that follows the text chapter-by-chapter. As students read the book, they can go online to take self-graded quizzes, review material, or review key terms using flashcards. Professors and students can access the OLC directly through the textbook Web site, through PageOut, or within a course management system such as WebCT, Blackboard, TopClass, or eCollege.

Students may also subscribe to *BusinessWeek* at a substantially reduced price in addition to the price of the text, if their instructors choose this option. Students will receive a passcode card shrink-wrapped with their new text. The card directs students to a Web site where they enter the code and then gain access to *BusinessWeek*'s registration page.

## New for This Edition

Over the years, the issues addressed by *Business and Society* have changed as the environment of business itself has been transformed. This twelfth edition is no exception, as readers will discover. Some issues have become less compelling and others have taken their place on the business agenda, while others endure through the years.

The 12th edition has been thoroughly revised and updated to reflect the latest theoretical work in the field and statistical data, as well as recent events. Among the new additions to this edition are:

- Theoretical advances in stakeholder theory, corporate citizenship, public affairs management, corporate governance, social performance auditing, social investing, reputation management, business partnerships, and corporate philanthropy.
- New discussion cases on such current topics as business's response to Hurricane Katrina, the shareholder revolt at Disney, Microsoft's antitrust troubles in Europe and Asia, decency standards in online games, the environmental risks of gold mining, Starbucks' political initiatives, the ethics of music downloads, and the sex discrimination lawsuit against Wal-Mart.
- New full-length cases on Merck and Vioxx, environmental initiatives in the hotel industry, and shareholder activism at Johnson & Johnson.

Finally, this is a book with a vision. It is not simply a compendium of information and ideas. This edition of *Business and Society* articulates the view that in a global community, where traditional buffers 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, businesses can achieve these goals while also being economically successful. Indeed, this may be the *only* way to achieve economic success over the long term.

*Anne T. Lawrence*

*James Weber*

We are grateful for the assistance of many colleagues at universities in the United States and abroad who over the years have helped shape this book with their excellent suggestions and ideas. We also note the feedback from students in our classes and at other colleges and universities that has helped make this book as user-friendly as possible.

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Finally, we wish to acknowledge the retirement from the author team of James E. Post. Jim was an author of this book from the sixth edition (1988) through the eleventh edition (2005). Over nearly two decades, he made countless contributions to this project, bringing to the author team his wealth of insights into public policy, stakeholder theory, public affairs management, and community relations. His intellectual influence continues to be felt throughout the book. To Jim, we extend

our deep appreciation and best wishes as he embarks on new professional challenges.

*Anne T. Lawrence*

*James Weber*

The book is divided into parts that are organized around major themes. In this - introduction, we explain the overall design of the book. Each chapter contains a number of pedagogical features designed to enhance student learning, including key learning objectives, updated examples, an end-of-chapter summary of key points, a list of key terms, Internet resources, and new or updated discussion cases with questions. Additional materials, among them teaching tips, a complete test bank, student self-study questions, and PowerPoint slides, are included in the Instructor's Resource Manual.

## Part One. The Corporation in Society

Chapter 1 introduces the core argument that business and society are part of an interactive system. It provides a model for analyzing the relationships between an organization and its market and nonmarket stakeholders. The chapter also discusses competing theories of the purpose of the modern firm and introduces some of the dynamic forces that are shaping the business and society relationship.

Chapter 2 describes a strategic approach to managing public issues that arise when corporate performance does not match stakeholder expectations. Such an approach requires corporations to work through a range of boundary-spanning departments to engage with stakeholders. An effective public affairs strategy enables an organization to scan its multiple environments, gather and use competitive intelligence, and manage the issue management process to benefit itself and society.

## Part Two. Business and the Social Environment

Chapter 3 presents the doctrine of corporate social responsibility and describes its - historical evolution. It examines the arguments for and against the proposition that business has an obligation to all of its multiple stakeholders, not only to its shareholders. Striking a balance among its economic, legal, and social responsibilities is a major challenge for today's business firm.

Chapter 4 introduces the concept of global corporate citizenship and presents a - multi-stage model to identify where a firm stands in its corporate citizenship development. The chapter also introduces the practice of social performance auditing and reporting and recognizes leading-edge corporate citizens.

## Part Three. Business and the Ethical Environment

Chapter 5 defines ethics. It explains why businesses should act ethically, and shows why sometimes they do not. The chapter also discusses the influence of managerial values and other core elements of ethical character, as well as the various stages of moral reasoning. Finally, the chapter presents an ethical decision-making framework that introduces generally accepted ethics theories.

Chapter 6 focuses on proactive business efforts to promote an ethical environment in the workplace. It provides a method to classify an organization's ethical climate and identifies ethical issues in a variety of business functions, including accounting, finance, marketing, and information technology. The chapter explains the multiple safeguards that make up a comprehensive ethics program.

The chapter also contrasts ethics to law and assesses the consequences of illegal behavior.

## Part Four. Business and Government in a Global Society

Chapter 7 describes the process of globalization and explores both the benefits and costs of the growing integration of the world economy. It defines the major types of political and economic systems in which companies operate across the world. The chapter also describes emerging codes of conduct and discusses how businesses can work collaboratively with governments and the civil sector to address global social issues.

Chapter 8 describes the public policy and regulatory process, the major types of government regulation of business and industry, and the regulatory environment in the United States and abroad.

Chapter 9 explores the participation by business and various stakeholder groups in the political process. The chapter presents numerous political action strategies and tactics used by business and by other groups, and examines the issue of campaign finance reform in the United States and in other countries.

Chapter 10 revisits the century-old issue of antitrust in the context of rapid technological change and globalization. It explores the causes of recent corporate mergers and their impacts on competition. As the world economy has become increasingly integrated, policy makers have faced the challenges of harmonizing competition policies across national borders.

## 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. Business and Technological Change

Businesses will be profoundly affected by a wave of scientific and technological change. Chapter 13 examines the administrative and organizational changes that will be required to manage this change. Chapter 14 introduces the topic of business and technology, and discusses the challenges of managing the complex relationships between science, technology, business, and society.

The complex relationships between science, technology, business, and society are creating numerous ethical and political issues. Chapter 14 focuses on how managers can address these complicated decisions. The sound management of technological challenges involves protecting privacy and intellectual property and managing scientific breakthroughs responsibly by understanding the impacts and risks technology exerts on business and its stakeholders.

## Part Seven. Building Relationships with Stakeholders

In the final part of the book, the concepts developed in earlier chapters are applied to a detailed examination of the relationship between the corporation and each of its market and nonmarket stakeholders.

Chapter 15 explores the rights of stockholders, managers, boards of directors, and other participants in contemporary corporate governance. It takes up the controversial debate over executive compensation and considers the causes of and possible remedies for recent corporate scandals. The chapter also shows how the government protects against stock market abuses, such as fraudulent accounting and insider trading.

Chapter 16 focuses on consumer protection, including such current topics as consumer privacy in the information age and product liability reform. It shows how socially responsible corporations can proactively respond to consumer needs.

The role of the corporation in the community is examined in Chapter 17. This chapter considers new models of corporate community relations and strategic philanthropy.

Chapter 18 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 and duties in the workplace are discussed.

Chapter 19 addresses the special issue of diversity in the workplace. What does diversity mean in the modern workplace? What are its benefits, and how is it best achieved? This chapter also describes programs companies have developed to support working parents and eliminate sex discrimination.

Finally, Chapter 20 examines business's relationship with the media. It explains the responsibilities of the public relations manager and to manage a crisis situation effectively. The chapter also explores the ethical implications of advertising by business. The media, as an industry, has its own set of ethical and social responsibilities to the public. The media must be sensitive to maintaining decency, reflecting diversity and equality, and portraying organizations and issues in a fair and balanced way.

## Cases

The 12th edition of this book features nine full-length case studies, three of which are new for this edition. The cases are written to provide rich discussion material and present a variety of opportunities for instructors to integrate topics raised in individual chapters.