

10th Edition

Business & Society

Ethics, Sustainability & Stakeholder Management



CARROLL | BROWN | BUCHHOLTZ

Business & Society

Ethics, Sustainability, and Stakeholder Management

TENTH EDITION

ARCHIE B. CARROLL

University of Georgia

JILL A. BROWN

Bentley University

ANN K. BUCHHOLTZ

Rutgers University



Australia • Brazil • Mexico • Singapore • United Kingdom • United States

**Business & Society: Ethics,
Sustainability, and Stakeholder
Management, Tenth Edition**

Archie B. Carroll, Jill A. Brown, and
Ann K. Buchholtz

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Intellectual Property Analyst:
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Preface

Business & Society: Ethics, Sustainability, and Stakeholder Management, Tenth Edition, provides a conceptual framework, analysis, and discussion of the issues surrounding the business and society relationship. The book's structure, chapters, and cases identify and engage the major topics involved in developing a robust understanding of business *and* society, or business *in* society. The latest research, examples, and cases provide you with a broad, yet detailed, analysis of the subject matter; they also offer a solid basis for thoughtful learning, reflection, and analysis of the domestic and global issues facing businesses today.

The book employs a managerial perspective that identifies and integrates current and relevant thought and practice. The managerial perspective is embedded within the book's major themes of business ethics, sustainability, and stakeholder management. Each of these themes is essential today. Each theme builds upon its own perspective but is consistent with and overlaps with the others. Taken together, they capture the challenges of the past and provide frameworks for thinking about the current and future role of business in society.

The *business ethics* dimension is central because it has become clear that value considerations are and need to be woven into the fabric of the public issues that organizations face today. An emphasis is placed on business ethics essentials and how ethics integrates into managerial and organizational decision making. Special spheres of business ethics discussed include the realms of technology and global capitalism, where ethical questions increasingly have arisen for the past 20 years. The subject of each chapter, moreover, is infused with ethics considerations that are vital to their full treatment.

Sustainability is now one of business's most pressing mandates. This dimension has been developed further since the ninth edition of this book because it has become more evident in the business world today that a concern for the natural, social, and financial environments are interconnected and that all three must be maintained in balance for both current and future generations. Hence, topics of the new circular economy, as well as measures of sustainability, are highlighted in this edition.

The *stakeholder management* perspective is crucial and enduring and it helps managers to (1) identify the various groups or individuals who have stakes in the firm or its actions, decisions, policies, and practices and (2) incorporate the stakeholders' concerns into the firm's daily operations and strategic plans. Stakeholder management is an approach that increases the likelihood decision makers will integrate ethical wisdom with management wisdom with respect to all salient parties to the business and society relationship.

As this edition goes to press, the country and world economies are still striving to recover from one of the most perilous financial periods since the Great Depression. The world stock market collapse beginning in the fall of 2008 had devastating repercussions for economies, governments, businesses, and individuals, and still we have not resolved completely the uncertainty associated with what began as financial turmoil and bankruptcies on Wall Street. This major event and its consequences will be with us for many years, and we urge readers to keep in mind the extent to which our world has now changed as they read the book and consider its content and application. Major events have the power to change the business and society relationship in significant ways—and instantaneously—so it is essential that the book's topics be read with an ever present eye on the events breaking in the news each day.

Applicable Courses for Book

This text is appropriate for college and university courses that carry such titles as Business and Society; Business *in* Society; Business and Its Environment; Business Ethics; Business and Public Policy; Social Issues in Management; Business, Government, and Society; Social Responsibility of Business; and Stakeholder Management. The book is appropriate for either a required or an elective course seeking to meet the most recent accrediting standards of the Association to Advance Collegiate Schools of Business (AACSB International). The book has been used successfully in both undergraduate and graduate courses.

Though the AACSB does not require any specific courses in this subject matter, its recently updated (January 31, 2016) standards specify that a business school's curriculum should include the topics covered throughout this textbook in both undergraduate and graduate degree programs. For undergraduate and graduate degree programs, learning experiences should be addressed and are addressed in General Skill Areas such as *ethical understanding and reasoning (able to identify ethical issues and address the issues in a socially responsible way)* and *diverse and multicultural work environments*.

In terms of AACSB's General Business and Management Knowledge Areas, the following topics should be addressed and are addressed in this textbook: *economic, political, regulatory, legal, technological, and social contexts of organizations in a globalized society*; and *social responsibility, including sustainability, and ethical behavior and approaches to management*.

This book is ideal for coverage of perspectives that form the context for business: ethical and global issues; the influence of political, social, legal, environmental, technological, and regulatory issues; and the impact of diversity on organizations. The book provides perspectives on business, society, and ethics in the United States, along with examples from Europe, Asia, and other parts of the world. As the world has grown closer due to technology, communications, and transportation, there has been more convergence than divergence in applicability of the ideas presented herein. The book has proved suitable in a number of different countries outside of the United States. In previous editions, versions were published in Canada and China. Publication in Japan is under consideration. Though written from the perspective of American society, a special effort has been made to include some examples from different parts of the world to illustrate major points. Most of the book applies in developed economies around the world.

Objectives in Relevant Courses

Depending on the placement of a course in the curriculum or the individual instructor's philosophy or strategy, this book could be used for a variety of objectives. The courses for which it is intended typically include several essential goals, including the following:

1. Students should be made aware of the expectations and demands that emanate from the stakeholder environment and are placed on business firms.
2. As prospective managers, students need to understand appropriate business responses and management approaches for dealing with social, political, environmental, technological, and global issues and stakeholders.
3. An appreciation of ethics and sustainability issues and the influence these have on society, management decision making, behavior, policies, and practices is important.
4. The broad question of business's legitimacy as an institution in a global society is at stake and must be addressed from both business and societal perspectives. These topics are essential to business building trust with society and all stakeholders.
5. The increasing extent to which social, ethical, public, environmental, and global issues must be considered from a strategic perspective is critical in such courses.

New to the Tenth Edition

This tenth edition has been updated and revised to reflect recent research, laws, cases, and examples. Material in this new edition includes:

- New research, surveys, and examples throughout all the chapters
- Coverage throughout the text on the most recent ethics scandals and their influence on business, society, organizations, and people
- New concepts and examples on the developing theme of “behavioral ethics”
- Discussion of recent developments with the Dodd Frank Wall Street Reform and Consumer Financial Protection Act, the Net Neutrality Act, the Consumer Drone Safety Act, the Affordable Care Act, and other laws with significant importance to managers today
- Expanded coverage of social media issues, including issues of usage, privacy, and liability
- Coverage of competing corporate governance perspectives
- Incorporation of the issue of risk management and its relation to business in society
- Updated coverage of social entrepreneurship and social enterprises
- Discussion of the emerging topic of Political Corporate Social Responsibility (PCSR)
- Expanded coverage of sustainability reporting and integrated reports
- Extended coverage of Citizens United, Super PACs, and Dark Money, and the importance of Corporate Political Accountability and Transparency
- Consideration of diversity, employee rights, and recent legislation regarding discrimination, including LGBT rights and updated protections, updated affirmative action issues, and new EEOC reforms
- Updated “Spotlight on Sustainability” features in each chapter, which demonstrate how sustainability is relevant and applicable to each chapter’s topics
- Fifty-five “Ethics in Practice Cases” embedded in chapters throughout the book, many of which are brand new to this edition
- Thirty-nine end-of-text “Cases” that may be assigned with any of the book’s chapter topics, 11 of which are brand new to this edition
- A revised and updated Instructor’s Manual
- A brand new MindTap product that includes a digital version of the book, plus practice, graded, and media quizzes

“Ethics in Practice Cases”

Integral to this tenth edition are in-chapter features titled “Ethics in Practice Cases.” Interspersed throughout the chapters, these short cases and incidents present (1) actual ethical situations faced by companies, managers, consumers, or employees; (2) topics currently being discussed in the news; or (3) dilemmas faced personally in the work experiences of our former students in university or executive education classes. These latter types of cases are real-life situations actually encountered in their full- and part-time work experiences. Students and managers wrote some of these cases, and we are pleased they gave us permission to use them. They provide ready examples of the ethical issues people face today as citizens, consumers, and employees. We would like to acknowledge the authors of these for their contributions to the book. Instructors may wish to use these as mini-cases for class discussion when a lengthier case is not assigned. They can be read quickly, but they contain considerable substance for class discussion and analysis.

“Spotlight on Sustainability” Features

The “Spotlight on Sustainability” features in each chapter highlight an important and relevant linkage of sustainability concepts that augment each chapter’s text material. The feature

sometimes highlights a pertinent organization covered in the chapter and further discusses its activities or issues. Other features highlight a sustainability challenge that a range of organizations face or a sustainability success that organizations or individuals can emulate. These features permit readers to quickly and easily discover how the sustainability theme applies to each topic covered in the text. The concept of sustainability extends to virtually all business, society, and ethics topics and embraces people and profits, as well as the planet.

Structure of the Book

Part 1. Business, Society, and Stakeholders

Part 1 of the book provides foundational coverage of pertinent business, society, and stakeholder topics and issues. Because most courses that will use this book relate to the issue of corporate social responsibility (CSR), this concept is discussed at the outset. Part 1 explores vital issues in the business and society relationship and discusses how corporate social responsibility and its complementary concepts—corporate citizenship and sustainability—provide basic frameworks to understanding. Also given early coverage is the stakeholder management concept, because it provides a way of thinking and analyzing all topics in the book, as well as a helpful perspective for thinking about organizations.

Part 2. Corporate Governance and Strategic Management Issues

The second part of the text addresses corporate governance and strategic management for stakeholder responsiveness. The purpose of this part is to discuss management considerations and implications for dealing with the issues discussed throughout the text. Corporate governance is covered early because in the past decade this topic has been identified as central to effective strategic management. The strategic management perspective is useful because these issues have impacts on the total organization and have become intense ones for many upper-level managers. Special treatment is given to corporate public policy; issue, risk, and crisis management; and public affairs management.

Some instructors may elect to cover Part 2 later in their courses. It could easily be covered after Part 4 or 5. This option would be most appropriate for those who use the book for a business ethics course or who desire to spend less time on the governance, strategy, and management perspectives.

Part 3. Business Ethics and Leadership

Four chapters dedicated to business ethics and leadership topics are presented in Part 3. In actual practice, business ethics cannot be separated from the full range of external and internal stakeholder concerns, but the topic's importance merits the more detailed treatment presented here. Part 3 focuses on business ethics essentials, managerial and organizational ethics, business ethics and technology, and ethical issues in the global arena. Taken together, these chapters examine business and society issues that require ethical thinking.

Part 4. External Stakeholder Issues

Vital topics in Part 4 include business's relations with government, consumers, the natural environment, and the community. In each of these topic areas, we encounter social and ethical issues and challenges that are integral to business today. The business–government relationship is divided into the regulatory initiatives to monitor business practices and business's attempts to influence government. Consumers, environment, and community stakeholders are then treated in separate chapters.

Part 5. Internal Stakeholder Issues

The primary internal stakeholders addressed in this part are employees. Here, we consider workplace issues and the key themes of employee rights, diversity, employment discrimination, and affirmative action. Two chapters address the changing social contract between business and employees and the urgent subjects of employee rights. A final chapter treats the vital topic of diversity and employment discrimination. Owner stakeholders may be seen as internal stakeholders too, but we cover them in Part 2, where the subject of corporate governance has been placed.

Case Studies

Throughout each of the chapters, there are “Ethics in Practice Cases,” 55 in total, that pertain to the chapter in which they are located, but also can be used with other chapters as needed. The 39 end-of-text Cases address a broad range of topics and decision situations. The cases are of varying length. They include classic cases (involving such corporate giants as Walmart, The Body Shop, Nike, McDonald’s, Volkswagen, Chipotle, Coke, Pepsi, and Apple) with ongoing deliberations, as well as new cases touching upon issues that have arisen in the past several years.

All the cases are intended to provide instructors and students with real-life situations within which to further analyze course issues, concepts, and topics covered throughout the book. Both the Ethics in Practice Cases and the end-of-text Cases may be used with various chapters depending on the emphasis of the course. Many of the cases carry ramifications that spill over into several subject areas or issues. Immediately preceding the end-of-text Cases is a set of guidelines for case analysis that the instructor may wish to use in place of or in addition to the questions that appear at the end of each case. A case matrix, located inside the front cover of the instructor edition of the textbook and in the instructor’s manual, provides guidance as to which of the cases in the book, both Ethics in Practice and end of text, work best with each chapter.

Support for the Student

MindTap

MindTap[®] Management for Carroll/Brown/Buchholtz, *Business & Society: Ethics, Sustainability, and Stakeholder Management*, 10th edition is the digital learning solution that powers students from memorization to mastery. It gives you complete control of your course—to provide engaging content, to challenge every individual, and to build their confidence. Empower students to accelerate their progress with MindTap. MindTap: Powered by You.

CourseMate Student Resources

The CourseMate site, accessible at www.cengagebrain.com, includes student support resources to enhance and assess learning, including PowerPoint slides, key terms, and learning objectives.

Support for the Instructor

Instructor’s Manual

The Instructor’s Manual includes learning objectives, teaching suggestions, complete chapter outlines, highlighted key terms, answers to discussion questions, case notes, and group exercises. The Instructor’s Manual is available on the Instructor Companion Site.

Test Bank

Cengage Learning Testing Powered by Cognero is a flexible, online system that allows you to author, edit, and manage test-bank content from multiple Cengage Learning solutions;

create multiple test versions in an instant; and deliver tests from your LMS, your classroom, or wherever you want. The test bank for each chapter includes true/false, multiple-choice, short-answer, and essay questions, all correlated to AACSB guidelines and learning standards, and questions are identified by the level of difficulty.

PowerPoint Slides

The PowerPoint presentations are colorful and varied, designed to hold students' interest and reinforce each chapter's main points. The PowerPoint presentations are available on the Instructor Companion Site.

Online Instructor Resources

To access the online course materials, please visit www.cengage.com, and log in with your credentials.

Acknowledgments

First, we would like to remember our dear friend, co-author, and colleague, Ann Buchholtz, whose contributions to the study of business and society will remain with us forever, as will our memories of her generous spirit. When Ann won the Sumner Marcus Award for the Social Issues in Management Division at the 2015 Academy of Management Conference, the words used to describe her included “top tier scholar,” “mentor,” “servant leader,” and “teacher.” Beyond the stories of her incredible research impact in the areas of ethics, corporate governance, corporate social responsibility, and strategy, Ann was someone who stood out among her peers in every dimension of performance and service. She loved the phrase from Mahatma Gandhi, “Be truthful, gentle and fearless,” and it described her nature perfectly. Ann leaves behind many friends, colleagues, and students who will miss her dearly, as well as a beloved brother, Dick Buchholtz, who has been a friend to us over the years. Ann's spirit will live on in this textbook, and we dedicate this edition to her.

Second, we would like to express gratitude to our professional colleagues in the Social Issues in Management (SIM) Division of the Academy of Management, the International Association for Business and Society (IABS), and the Society for Business Ethics (SBE). Over the years, members of these organizations have meant a great deal to us and have helped provide a stimulating environment in which we could intellectually pursue these topics in which we have a common interest. Many of these individuals are cited in this book and their work is sincerely appreciated.

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We would also like to express gratitude to our students, who have not only provided comments on a regular basis but also made this tenth edition even more interesting with the ethical dilemmas they have personally contributed, as highlighted in the Ethics in Practice Cases features found in many of the chapters or at the end of the text. In addition to those who are named in the Ethics in Practice Cases features and end-of-text Cases and have given permission for their materials to be used, we would like to thank the following individuals for their contributions: Michelle Alen, Kristine Calo, Chad Cleveland, Ken Crowe, Lee Askew Elkins, Charles Lyons, William Megathlin, Jr., Madeline Meibauer, Laura Rosario, Paul Rouland, Sr., William Sodeman and Clayton Wilcox. We express grateful appreciation to the authors of the other cases that appear at the end of the text, and their names are mentioned there. We also would like to thank Bruce F. Freed and Karl Sandstrom of the Center for Political Accountability for their support as we incorporated the issues stemming from Citizens United into our discussion of corporate political activity.

Finally, we wish to express heartfelt appreciation to our family members and friends for their patience, understanding, and support when work on the book altered our priorities and plans.

Archie B. Carroll
Jill A. Brown

About the Authors

Archie B. Carroll

Archie B. Carroll is Robert W. Scherer Chair of Management & Corporate Public Affairs *emeritus* and professor of management *emeritus* in the Terry College of Business, University of Georgia. He also served as director of the Nonprofit Management and Community Service Program in the Terry College of Business. Dr. Carroll received his three academic degrees from The Florida State University in Tallahassee. He is the co-author of *Corporate Responsibility: The American Experience* (Cambridge University Press, 2012), which won the Academy of Management, Social Issues in Management, Book of the Year Award in 2014. He was recognized with the first Lifetime Achievement Award in Corporate Social Responsibility (2012) given by the Institute of Management, Humboldt University, Berlin, Germany.

Professor Carroll has published numerous books, chapters, articles, and encyclopedia entries. His research has appeared in the *Academy of Management Journal*, *Academy of Management Review*, *Business and Society*, *Journal of Management*, *Business Ethics Quarterly*, *Journal of Business Ethics*, and many others.

He is former Division Chair of the Social Issues in Management (SIM) Division of the Academy of Management, a founding board member of the International Association for Business and Society (IABS), and past president of the Society for Business Ethics (SBE). He is an elected Fellow of the Southern Management Association (1995), Fellow of the Academy of Management (2005), and Fellow of the International Association for Business and Society (2012).

Other important professional recognitions include the Sumner Marcus Award (1992) for Distinguished Service by the SIM Division of the Academy of Management; Distinguished Research Award (1993) by Terry College of Business, University of Georgia; Distinguished Service Award (2003) by the Terry College of Business; and the Hunt SMA Sustained Outstanding Service Award (2016) by the Southern Management Association. He was named professor *emeritus* (2005) at the University of Georgia, and in 2008, he was recognized with the Outstanding Ph.D. Award from the College of Business, Florida State University.

Jill A. Brown

Jill Brown is the Harold S. Geneen Research Professor of Corporate Governance at Bentley University. She received her Ph.D. at the University of Georgia; Ann Buchholtz served as her Dissertation Chair.

Dr. Brown's research and teaching interests include ethics, corporate social responsibility, corporate governance, and strategic leadership—with a focus on understanding how businesses can create both financial and social value. Brown's work has been published in the *Journal of Business Ethics*, *Organization Science*, *Business Ethics Quarterly*, *the Journal of Management Studies*, *the Oxford Handbook of Corporate Social Responsibility*, *Strategic Organization*, and *Corporate Governance: An International Review (CGIR)*, where she is an associate editor. She also serves as an associate editor for *Business and Society*.

She is an elected Representative-at-Large of the International Association of Business and Society (IABS), an international organization committed to understanding relationships

between business, government, and society. She has also served in many capacities for the SIM (Social Issues in Management) Division at the Academy of Management, including Co-Chair of the Doctoral Consortium, elected Representative-at-Large, and most recently as Program Chair-Elect. Dr. Brown has received numerous teaching and reviewing awards, including the Robert and Christine Staub Faculty Excellence Award at Lehigh University, and Best Reviewer awards from *CGIR* and *Business & Society*.

Ann K. Buchholtz

The late Ann K. Buchholtz was professor of Leadership and Ethics at Rutgers University and served as research director of the Institute for Ethical Leadership at the Rutgers Business School. She received her Ph.D. from the Stern School of Business at New York University. She passed away in September 2015.

Professor Buchholtz's research focused on the social and ethical implications of corporate governance, in particular, and the relationship of business and society in general. Journals in which her work has appeared include *Business and Society*, *Business Ethics Quarterly*, the *Academy of Management Journal*, the *Academy of Management Review*, the *Journal of Management*, *Organization Science*, the *Journal of Management Studies*, and *Corporate Governance an International Review*, among others. Her research on board processes received an ANBAR citation of excellence award.

Her teaching and consulting activities were in the areas of business ethics, social issues, strategic leadership, and corporate governance. Her service learning activities in the classroom received a Trailblazer Advocate of the Year award from the Domestic Violence Council of Northeast Georgia. She was the recipient of numerous teaching awards, including Profound Effect on a Student Leader, and was named a Senior Teaching Fellow at the University of Georgia.

Professor Buchholtz served as past Division Chair of the Social Issues in Management Division of the Academy of Management. She served on the ethics task force that designed a Code of Ethics for the Academy of Management and then became the inaugural chairperson of the Academy's Ethics Adjudication Committee when the Academy's ethics code was put into effect. She completed a three-year term on the Academy of Management's Board of Governors. In 2015, she was honored with the Sumner Marcus Award for outstanding service given by the SIM Division of the Academy of Management. Prior to entering academe, Dr. Buchholtz's work focused on the education, vocational, and residential needs of individuals with disabilities. She worked in a variety of organizations, in both managerial and consultative capacities, and consulted with numerous public and private firms.

PART 1

Business, Society, and Stakeholders

CHAPTER 1

The Business and Society Relationship

CHAPTER 2

Corporate Social Responsibility, Citizenship, and Sustainability

CHAPTER 3

The Stakeholder Approach to Business, Society, and Ethics



1

The Business and Society Relationship

CHAPTER LEARNING OUTCOMES

After studying this chapter, you should be able to:

- 1 Define and explain business and society as foundational concepts. Describe how society is viewed as the macroenvironment.
- 2 Explain the characteristics of a pluralistic society. Describe pluralism and identify its attributes, strengths, and weaknesses.
- 3 Clarify what is a special-interest society and how it evolves.
- 4 Identify, discuss, and illustrate the factors leading up to business criticism and corporate response. What is the general criticism of business? How may the balance of power and responsibility be resolved? What is the changing social contract?
- 5 Make clear the major focuses or themes of the book: managerial approach, business ethics, sustainability, and stakeholder management.

The business and society relationship has generated many economic, social, ethical, and environmental challenges over the decades. Though the business system has served most market-based societies well, criticism of business and its practices has become commonplace. Aided by the media persistently looking for stories of conflict, this may be a reflection of the natural tendency to highlight the negative and to take for granted the beneficial aspects of the relationship. This tendency propels a focus on the stresses and strains of business operating in society. A Bloomberg BusinessWeek article in 2016 says that it is still “open season on big business.”¹

Beginning with the Enron scandal in the early 2000s, a number of major companies have been in the news because of their ethical violations. In the fall of 2008, a collapsing U.S. stock market and worldwide recession had a deeper and more far-reaching impact on the world economy and began to raise questions about the future of the business system as we have known it. In what is now believed to be the most serious financial collapse since the 1920s, this financial crisis centered on Wall Street and many of the large firms that historically had been the backbone of the U.S. financial system.

The causes of the financial collapse and the ensuing economic chaos continue to be debated. The housing bubble burst and years of lax lending standards put big investment banks and Wall Street at the center of the collapse.² Faced with an unprecedented financial crisis, the federal government got into the bailout business as Congress approved a \$700 billion rescue plan³ for Wall Street financial firms, such as Merrill Lynch, Bear Stearns, Citigroup, Lehman Brothers, AIG, and notable industries, like the auto industry.

There was plenty of blame to go around for the financial crisis, and the finger-pointing continues to this day. Some of those identified as guilty parties included greedy home buyers who took on more debt than they could handle; mortgage lenders who ceased using conventional lending standards; credit rating agencies that did not do their job; commission-hungry brokers; builders who conspired with crooked appraisers; and the Federal Reserve, which was accused of flooding the market with easy money.⁴ Significant criticism was targeted toward Wall Street and the businesses themselves as being central to the financial collapse. Others claimed that capitalism itself was behind the mess because the Wall Street firms were just doing what the capitalist system encourages. The recent movie, *The Big Short*, provided a dramatic reminder of how this financial crisis unfolded.

By the fall of 2011, Big Business and the capitalistic system were targeted by a new protest movement, which called itself “Occupy Wall Street.” The movement reflected some of the built up discontent with the business system, which had resulted in high unemployment and financial stress for millions. In spite of

protestations that continued beyond 2012, the Occupy Wall Street (OWS) movement never had a clear list of criticisms or demands but it was understood that the enemy was the big business system and modern capitalism. The movement's broad list of accusations reflected a litany of complaints that included crony capitalism, inequality of wealth, poor housing, obscenely high executive compensation, business greed, the lack of good jobs, a culture that puts profits before people, and a general discontent with capitalism and the economic system.⁵ Though most of OWS's complaints were targeted at business and the capitalistic system, some observers criticized the protestors because they failed to see the complicity of big government in developing and supporting housing policies that led to the financial crisis in the first place.⁶ In short, though many critics were preoccupied with Wall Street and the capitalistic system, Big Government also had a hand in the crisis as well.

Business is a more inviting target than government, however, because it is seen as being motivated only by profit while government is not seeking profits but is charged with acting in the public interest. Consequently, business and the capitalistic system have become the primary targets of the critics though flaws in the business-government relationship played a huge role in the controversy. The Wall Street protestors framed the battle as if they represented the 99 percent of citizens who were angry at the 1 percent of wealthy, primarily business people. This focus on the "One Percent" who own most of the wealth had become center stage by 2015 and continues today as the One Percent movement. Global income inequality has become the rallying point for many critics of the business system.⁷ Only time will tell whether the OWS and One Percent movements will continue, but in the meantime, it has raised public awareness of weaknesses in the capitalistic system. One major consequence of the OWS movement is that Wall Street, especially the big banks, have lost their "cool" factor and a lot of their prestige. Many of today's top grads are more interested in going to Silicon Valley rather than Wall Street, believing they can make good money there and also have a chance to change the world.⁸ In addition, more and more commentaries questioning the capitalistic system have emerged, so it appears to be an issue the business community will need to address to repair its bruised image.⁹

The business system and society suffered another high profile blow when the Deepwater Horizon/BP oil spill occurred in the spring of 2010. Called the worst environmental disaster in history, the cleanup is still ongoing, with significant ecological and business consequences. The spill heightened the public's awareness of the impact business can have on the natural environment and doubtless heightened support for the sustainability movement that was already well underway. In the fall of 2015, the Justice Department announced a record setting \$20 billion settlement with BP, the British energy giant, after five years of negotiations over the effects of the Deepwater Horizon oil spill. The oil spill damaged more than 1,300 miles of the Gulf of Mexico's coastline, and it has been called the largest environmental disaster in U.S. history.¹⁰

By 2016, a number of different business scandals had surfaced and damaged the business and society relationship further. These included the Volkswagen emissions scandal, admission by General Motors' that it had schemed to conceal deadly safety defects in its ignition switches, revelations that Takata Corporation had been selling defective air bags, and disclosure that Toshiba had engaged in at least \$1 billion in accounting irregularities. In addition to these scandals, a national

malaise seemed to have set in as many in the general public began experiencing a middle class financial squeeze due to a jobless economic recovery.¹¹

According to a 2015 Gallup poll, many Americans began thinking that the country has been heading in the wrong direction. This has led to countless people questioning the major institutions of society, and according to one observer, a period of political distrust has taken over.¹² A 2016 poll by the Edelman public relations firm confirmed that America has a trust issue with business and government, especially financial companies, and that this erosion of trust is not only in the United States but also around the world.¹³

In light of the business criticisms that have arisen, it is little wonder that the “conscious capitalism” movement is gaining increased attention. This movement has been inspired by the book *Conscious Capitalism: Liberating the Heroic Spirit of Business*, co-authored by John Mackey, CEO and cofounder of Whole Foods Market and Rajendra Sisodia, professor of marketing at Bentley University. Their book has helped to spawn a whole new way of thinking about capitalism that is based on four principles—seeking a higher purpose, using a stakeholder orientation, embracing conscious leadership, and promoting a conscious culture that seeks to improve the social fabric of business. According to one writer, Mackey’s latest mission is cleansing America’s free-enterprise soul.¹⁴

Other serious questions continue to be raised about a host of other ongoing day-to-day business issues: corporate governance, ethical conduct, executive compensation, the use of illegal immigrants as employees, fluctuating energy prices, government involvement in the economy, healthiness of fast food, international corruption, and so on. The listing of such issues could go on and on, but these examples illustrate the enduring tensions between business and society, which in part can be traced to recent high-profile incidents, trends, or events.

Undergirding the recent scandals and issues, familiar worries embodying social or ethical implications have continued to be debated within the business and society interface. Some of these have included businesses moving offshore, downsizing of pension programs, high unemployment, underemployment, level of the minimum wage, reduced health insurance benefits, abuses of corporate power, toxic waste disposal, insider trading, whistle-blowing, product liability, deceptive marketing, and questionable lobbying by business to influence the outcome of legislation. These examples of both general and specific issues are typical of the kinds of stories about business and society that one finds in newspapers and magazines today and on television, social media, and the Internet.

At the broadest level, the role of business in society is the subject of this book. Many key questions will be addressed—the role of business relative to the role of government in the socioeconomic system; what a firm must do to be considered socially responsible; what managers must do to be considered ethical; and what responsibilities companies have to consumers, employees, shareholders, and communities in an age of economic uncertainty and globalization. And, throughout all this, an escalating mandate for sustainability has captured the attention of business leaders, critics, and public policymakers.

As we approach the end of the second decade of the new millennium, many economic, legal, ethical, and technological issues concerning business and society continue on. This period is turbulent and has been characterized by significant and rapid changes in the world, the economy, society, technology, and global relationships. Against this setting of ongoing instability in the business and society relationship, some basic concepts and ideas are worth considering first.

SPOTLIGHT *on Sustainability***Sustainability—What Does It Mean?**

- Sustainability is ... providing for the needs of the present generation while not compromising the ability of future generations to meet theirs (*original definition in the U.N. Brundtland Commission Report on "Our Common Future."*)
- Sustainability is ... creating shareholder and social value while decreasing the environmental footprint along the value chains in which we operate (*DuPont*).
- Corporate sustainability is about being able to sustain your business responsibly, with one eye on new external risks and the other on future consequences of your decisions (*PwC*).
- Corporate sustainability can be broadly defined as the pursuit of a business growth strategy by allocating financial or in-kind resources of the corporation to a social or environmental initiative (*The Conference Board, Sustainability Matters*).
- Sustainability involves the simultaneous pursuit of economic prosperity, environmental quality, and social equity (World Business Council on Sustainable Development).

1.1 Business and Society

There are some basic concepts that are central to understanding the continuing business and society relationship. Some have chosen to frame it as business *in* society. Either way it is framed, important concepts include pluralism, our special-interest society, business criticism, corporate power, and corporate social response to stakeholders. First, it is important to define and describe two key terms that are central to the discussion: *business* and *society*.

1.1a Business Defined

Business may be defined as the collection of private, commercially oriented (profit-oriented) organizations, ranging in size from one-family proprietorships (e.g., DePalma's Italian Café, Half-Moon Outfitters, and Taqueria del Sol) to corporate giants (e.g., Coca-Cola, UPS, Microsoft, Apple, Google, and Delta Airlines). Between these two extremes are many medium-sized proprietorships, partnerships, and corporations.

When businesses are thought of in this collective sense, all sizes and types of industries are included. However, in embarking on a study of business and society, there is a tendency to focus more on *big* businesses in highly visible industries. Big businesses' products, services and advertising are widely known and they are more frequently in the critical public eye. Size is often associated with power, and the powerful are given closer scrutiny. Although it is well known that small businesses far outnumber large ones, the prevalence, power, visibility, and impact of large firms keep them in the spotlight most of the time.

In addition, some industries are simply more conducive than others in the creation of visible, social problems. For example, many manufacturing firms by their very nature cause observable air, water, and solid waste pollution and contribute to climate changes. Such firms, therefore, are more likely to be subject to criticism than a life insurance company, which emits no obvious pollutant. The auto industry with the manufacture of trucks and sport utility vehicles (SUVs) is a specific case in point. Criticism of Volkswagen, General Motors (GM), and other automakers is raised because of their high profile as manufacturers, the omnipresence of the products they make (which are the largest single source of air pollution), and the popularity of their products (many families own multiple cars), and road congestion is experienced daily.

Some industries are highly visible because of the advertising-intensive nature of their products (e.g., Procter & Gamble, FedEx, Anheuser-Busch, and Home Depot). Other industries (e.g., the cigarette, toy, and fast food industries) are scrutinized because of the possible effects of their products on health or because of their roles in providing health-related products (e.g., pharmaceutical firms, vitamin firms).

For these reasons, when discussing business in its relationship with society, the focus of attention tends to be on large businesses in well-known industries. However, we should not lose sight of the fact that small- and medium-sized companies increasingly represent settings in which our discussions also apply. In recent years, the social responsibilities of smaller enterprises and the developing movement toward social entrepreneurship has captivated increasing attention.

1.1b Society Defined

Society may be thought of as a community, a nation, or a broad grouping of people with common traditions, values, institutions, and collective activities and interests. As such, when speaking of business and society relationships, this may be referring to business and the local community (business and Nashville), business and the United States as a whole, global business, or business and a specific group of stakeholders (consumers, employees, investors, environmentalists).

When discussing business and the *total* society, society is thought of as being composed of numerous interest groups, more or less formalized organizations, and a wide variety of institutions. Each of these groups, organizations, and institutions is a purposeful aggregation of people who are grouped together because they represent a common cause or share a set of common beliefs about a particular issue. Examples of special interest groups are numerous: The Sierra Club, Center for Science in the Public Interest, chambers of commerce, National Small Business Association, People for the Ethical Treatment of Animals (PETA), and the Forest Stewardship Council.

1.2 Society as the Macroenvironment

The environment of society is a key element in analyzing business and society relationships. At its broadest level, the societal environment might be thought of as a **macroenvironment** that includes the total environment outside the firm. The macroenvironment is the comprehensive societal context in which organizations reside. The idea of the macroenvironment is just another way of thinking about society as a whole. In fact, early courses on business and society were sometimes (and some still are) titled “Business and Its Environment.” The concept of the macroenvironment evokes different images or ways of thinking about business and society relationships and is therefore valuable in terms of analyzing and understanding the total business context.

A useful conceptualization of the macroenvironment is to think of it as being composed of four identifiable but interrelated segments: social, economic, political, and technological.¹⁵

The **social environment** focuses on demographics, lifestyles, culture, and social values of the society. Of particular interest here is the manner in which shifts in these factors affect the organization and its functioning. For example, the influx of undocumented workers and immigrants over the past decade has brought changes to the demographic profile of countries. The **economic environment** addresses the nature and direction of the economy in which business operates. Variables of interest include such indices as gross national product, inflation, interest rates, unemployment rates, foreign exchange fluctuations, national debt, global trade, balance of payments, and various other indices

of economic activity. Hypercompetition in the world economy has dominated the economic segment of this environment and global competitiveness is now a huge issue for businesses.¹⁶ Underwhelming business growth during the past several years has been a serious problem.

The economic picture has darkened since the start of the new millennium. Lackluster growth has been typical and the recovery from the recession of 2007–2008 has been even weaker and the middle class has felt it the most.¹⁷ Businesses moving jobs offshore to lower labor costs have been a controversial trend. Enduring levels of high unemployment, underemployment and use of part-time workers have been problematic economic issues. Many people have become frustrated about finding jobs and have left the workforce completely. An important overlay to these problems has been the growing belief by some that a significant income inequality has taken hold in American society and globally.

The **political environment** focuses on the processes by which laws get passed and officials get elected and all other aspects of the interaction between firms, political practices, and government. Of particular interest to business in this segment are taxation, the regulatory process, and the changes that occur over time in business regulation of various industries, products, and different issues. Beginning in 2009, Congress ramped up its regulatory ambitions as it sought to improve the global economic system. Passage of the Affordable Care Act (ACA) in 2010 introduced considerable uncertainty in business decision making because of its dramatic impact on business costs and this concern continues. At this writing, the 2016 presidential election process is well underway and an issue that keeps coming to the surface is the inability of Congress to get anything done because of paralysis in the political process. Part of the public's reaction has been to favor "outsiders" to the Washington-centered political process when it comes to national elections.

Finally, the **technological environment** represents the total set of technology-based advancements taking place in society and the world. This rapidly changing segment includes new products, processes, materials, and means of communication (e.g., social networking), as well as the status of knowledge and scientific advancement. The process and speed of technological change is of significant importance here.¹⁸ The rate of invention, innovation, and diffusion seems to become more dynamic with each passing year. In recent years, information technologies and biotechnology have been driving this segment of environmental turbulence.

Understanding that business and society relationships are embedded in a macroenvironment provides us with a constructive way of understanding the kinds of issues that constitute the broad milieu in which business functions. Throughout this book, evidence of these ever-changing environmental segments will become apparent and it will become easier to appreciate what challenges managers face as they strive to operate effective organizations while interfacing with society. Each of the thousands of specific groups and organizations that make up our pluralistic society can typically be traced to one of these four environmental segments.

1.3 A Pluralistic Society

Societies as macroenvironments are typically pluralistic. Pluralistic societies make for business and society relationships that are complex and dynamic. **Pluralism** refers to a diffusion of power among society's many groups and organizations. A long-standing definition of a pluralistic society is helpful: "A pluralistic society is one in which there is wide decentralization and diversity of power concentration."¹⁹

The key terms in this definition are *decentralization* and *diversity*. In other words, power is decentralized—dispersed among many groups and people. Power is not held

FIGURE 1-1 The Virtues of a Pluralistic Society**A pluralistic society ...**

- Prevents power from being concentrated in the hands of a few
- Maximizes freedom of expression and action and strikes a balance between monism (social organization into one institution), on the one hand, and anarchy (social organization into an infinite number of persons), on the other^a
- Is one in which the allegiance of individuals to groups is dispersed
- Creates a widely diversified set of loyalties to many organizations and minimizes the danger that a leader of any one organization will be left uncontrolled^b
- Provides a built-in set of checks and balances, in that groups can exert power over one another with no single organization (business or government) dominating and becoming overly influential

Sources: ^aKeith Davis and Robert L. Blomstrom, *Business and Society: Environment and Responsibility*, 3d ed. (New York: McGraw-Hill, 1975), 63. ^bJoseph W. McGuire, *Business and Society* (New York: McGraw-Hill, 1963), 132. Also see “What Are Pluralistic Societies?” <http://www.ask.com/world-view/pluralistic-societies-798b3a7163095a11>. Accessed March 28, 2015.

in the hands of any single institution (e.g., business, government, labor, military) or a small number of groups. Pluralistic societies are found all over the world now, and some of the virtues of a pluralistic society are summarized in Figure 1-1.

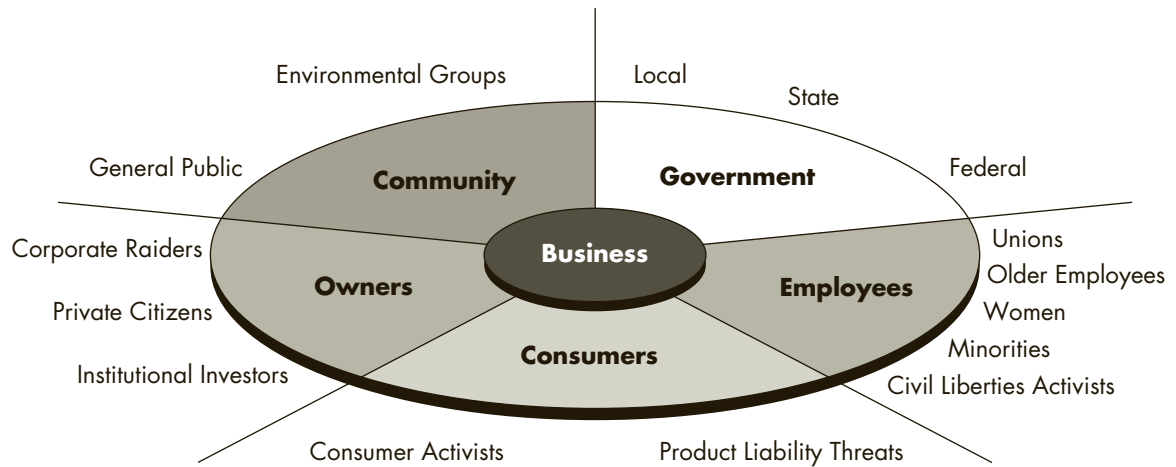
1.3a Pluralism Has Strengths and Weaknesses

All social systems have strengths and weaknesses. A pluralistic society prevents power from being concentrated in the hands of a few. It also maximizes freedom of expression and action. Pluralism provides for a built-in set of checks and balances so that no single group dominates. However, a weakness of a pluralistic system is that it creates an environment in which diverse institutions pursue their own self-interests with the result that there is no unified direction to bring together individual pursuits. Another weakness is that groups and institutions proliferate to the extent that their goals start to overlap, thus causing confusion as to which organizations best serve which functions. Pluralism forces conflict, or differences in opinions, onto center stage because of its emphasis on autonomous groups, each pursuing its own objectives. In light of these concerns, a pluralistic system does not appear to be very efficient though it does provide a greater balance of power among groups in society.

1.3b Multiple Publics, Systems, and Stakeholders

Knowing that society is composed of so many different semiautonomous and autonomous groups might cause one to question whether we can realistically speak of society in a definitive sense that has any generally agreed-upon meaning. Nevertheless, we do speak in such terms, knowing that, unless we specify a particular societal subgroup or subsystem, we are referring to the total collectivity of all those persons, groups, and institutions that constitute society. Thus, references to business and society relationships may refer either to particular segments or subgroups of society (consumers, women, minorities, environmentalists, millennials, senior citizens) or to business and some *system* in our society (politics, law, custom, religion, economics). These groups of people or systems also may be referred to in an institutional form (business and the courts, business and labor unions, business and the church, business and the Federal Trade Commission, and so on).

Figure 1-2 depicts in graphic form the points of interface between business and some of the multiple publics, systems, or stakeholders with which business interacts. Stakeholders

FIGURE 1-2 Business and Selected Stakeholder Relationships

are those groups or individuals with whom an organization interacts or has interdependencies. The stakeholder concept will be developed further in Chapter 3. It also should be noted that each of the stakeholder groups may be further subdivided into more specific stakeholder subgroups, each of them posing special challenges for business.

If sheer numbers of relationships and interactions are an indicator of complexity, it is easily seen that business's current relationships with different segments of society constitute a truly complex macroenvironment. Today, managers must deal with these interfaces on a daily basis and the study of business and/in society is designed to improve that understanding.

1.4 A Special-Interest Society

A pluralistic society often becomes a **special-interest society**. As pluralism expands, a society develops that is characterized by tens of thousands of special-interest groups, each pursuing its own specific agenda. General-purpose interest organizations, often called advocacy groups, such as Common Cause and the U.S. Chamber of Commerce, still exist. However, the past several decades have been characterized by increasing specialization on the part of interest groups representing all sectors of society—consumers, employees, investors, communities, the natural environment, government, and business itself. In many parts of the world, these nonprofit organizations are frequently called **nongovernmental organizations (NGOs)**. They are citizens' groups that may be organized on a local, national, or international level. Today, many NGOs are long-lived, robust, and ever active watchdogs and actors in the business and society relationship.²⁰ One newspaper headline noted that “there is a group for every cause.” Special-interest groups not only have grown in number at an accelerated pace but they also have become increasingly activist, intense, and focused on single issues. Such groups are strongly committed to their causes and strive to bring pressure to bear on businesses to meet their needs and on governments to accommodate their agendas.

The health-care debate in the United States that continues to rage on illustrates how a pluralistic, special-interest society works. Consider that the following special-interest groups have all been active and continue to be so in the fine-tuning of the health-care