Chapter 1

**The Business and Society Relationship**

**LEARNING OUTCOMES**

After studying this chapter, you should be able to:

1. Describe 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. Define a special-interest society and describe 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. Highlight the major focuses or themes of the book: managerial approach, business ethics, sustainability, and stakeholder management.

**TEACHING SUGGESTIONS**

INTRODUCTION – This chapter introduces some important basic concepts in the business and society discussion, including pluralism, special-interest societies, business criticism, corporate power, corporate social responsibility to stakeholders, and sustainability.

KEY TALKING POINTS – The instructor is likely to find that students have given little or no thought to the role that business plays in our society. Most undergraduates (most people for that matter) have never really considered the influence of business in their lives, and so fall victim to the “is/ought” fallacy. They assume that just because something “is” a certain way, then it “ought” to be that way. Thus, they assume that because business is the dominant social institution in our society, it should be. One of the main challenges that the instructor faces in this chapter is simply getting students to reflect on the power that business holds in our society. Most don’t realize the influence that corporations hold over them because they have never given the idea any thought. The second, and even greater challenge, will be getting students to realize and accept that corporations are dependent on them (the students) for their very existence. Corporations are legal fictions that exist only because we have passed laws that allow them to exist. Thus, the continued existence of the corporation as a legal entity depends on social legitimacy granted to corporations by citizens. Most students will rebel at the notion that they have any power over whether General Motors or General Electric or General Dynamics continues to exist or not (here is a good spot to point out how quickly and easily the students can see where the power lies). Practically speaking, they will be correct—individuals have precious little power to influence our corporate system. But as Margaret Mead, the famed anthropologist, noted, “Never doubt that a small group of thoughtful citizens can change the world. Indeed, it is the only thing that ever has.”

**PEDAGOGICAL DEVICES** – In this chapter, instructors may utilize a combination of:

Cases:

1-Wal-Mart- The Main Street Merchant of Doom

2-The Body Shop (A) - Pursuing Social and Environmental Change

3-The Body Shop (B) - Reputation is Tarnished

4-The Body Shop (C) - Into the New Millennium

7-Using Ex-Cons to Teach Business Ethics

12-Banned if You Do, Banned if You Don’t

19-Should Directors Shine Light on Dark Money?

23-McDonald’s Coffee Spill

24-The Betaseron Decision (A)

25-The Hudson River Cleanup and GE

26-Cloud Computing – Earth’s Friend or Foe

27-New Belgium Brewing, Defining a Business on Sustainability

29-Felony Franks (2), Home of the Misdemeanor Wiener

31-Moral Dilemma - Head vs. Heart

39-To Take or Not to Take

Ethics in Practice Cases:

Working for My Cup or the House?

Is Business Power Too Great?

Spotlight on Sustainability:

Sustainability—What Does It Mean?

Power Point slides:

Visit <http://academic.cengage.com/management/carroll> for slides related to this and other chapters.

**LECTURE OUTLINE**

1. BUSINESS AND SOCIETY
   1. Business: Defined
   2. Society: Defined
2. SOCIETY AS THE MACROENVIRONMENT
3. A PLURALISTIC SOCIETY
   1. Pluralism Has Strengths and Weaknesses
   2. Multiple Publics, Systems, and Stakeholders
4. A SPECIAL-INTEREST SOCIETY
5. BUSINESS CRITICISM AND CORPORATE RESPONSE
   1. Factors in the Social Environment
      1. Affluence and Education
      2. Awareness through Television, Movies, the Internet, and Social Media
         1. 24/7 News and Investigative Programs
         2. Prime-Time Television Programs
         3. Commercials
         4. Movies
         5. Social Media
      3. Revolution of Rising Expectations
      4. Entitlement Mentality
      5. Rights Movement
      6. Victimization Philosophy
   2. A General Criticism of Business: Use and Abuse of Power
      1. Levels of Power
      2. Spheres of Power
   3. Balancing Power with Responsibility
      1. Iron Law of Responsibility
   4. Business’s Response: Concern and a Changing Social Contract
      1. Social Contract
6. FOCUS OF THE BOOK
   1. Managerial Approach
      1. Urgent versus Enduring Issues
   2. Business Ethics Theme
   3. Sustainability Theme
   4. Stakeholder Management Theme
7. Structure of the Book
8. SUMMARY

**SUGGESTED ANSWERS TO DISCUSSION QUESTIONS**

Students should recognize that their answers to these discussion questions should be well reasoned and supported with evidence. Although some answers will be more correct than others, students should be aware that simplistic answers to complex questions, problems, or issues such as these will never be “good” answers.

1. Question: *In discussion of business and society, why is there a tendency to focus on large-sized rather than small- or medium-sized firms? Have the corporate ethics scandals of the past decade affected small- and medium-sized firms? If so, in what ways have these firms been affected?*

Answer: We tend to focus on large firms when discussing business and society for a number of reasons. Large firms are more visible, their products and services are more widely known, and we generally equate size with power. All of these factors contribute to the fact that large firms are more susceptible to public scrutiny. It is debatable whether the ethics scandals of the first decade of the 2000s have had a significant impact on small and medium-sized firms. On the one hand, the scandals may have caused a general increase in the level of distrust of business. This had a chilling effect on stock prices and made it more difficult for smaller firms to raise money, especially through initial public offerings (IPOs). Furthermore, small and medium-sized firms that are not publicly-traded may feel pressure to adhere to the costly provisions of the Sarbanes-Oxley Act, as lenders, investors and competitors continue to stress that SOX provisions are the “best practices” by which *all* firms are measured. On the other hand, as stated above, the public tends to focus more on larger firms, so the scandals may not have “trickled down” to smaller firms on those occasions when members of society actually do think about them.

1. Question: *What is the one greatest strength of a pluralistic society? What is the one greatest weakness? Do these characteristics work for or against business?*

Answer: The textbook lists several strengths (prevents power from being concentrated, maximizes freedom of expression, allegiance of individuals to groups is dispersed, creates a diversified set of loyalties to many organizations, and provides a set of checks and balances) and weaknesses (no unified direction to align individual pursuits, proliferating groups have overlapping goals, and promotes conflicts among groups). Students could conceivably make a case for any of these as the greatest strength and weakness. In my opinion, pluralism can prevent power from being too concentrated by providing a system of checks and balances, so that may be its greatest strength. However, students should recognize that power is still not evenly distributed, even in a pluralistic society. Some individuals and groups have more power than others—concentration is a matter of degree, not an either/or situation. The greatest weakness seems to lie in the fact that pluralism engenders conflicts of interest among groups with differing goals, thus leading to special-interest groups. There will hardly ever be a consensus among competing groups, which could lead to inaction or ineffective compromise.

1. Question: *Identify and explain the major factors in the social environment that create an atmosphere in which business criticism takes place and prospers. Provide examples. How are the factors related to one another? Has the revolution of rising expectations run its course? Or is it still a reality among young people today?*

Answer:Many factors contribute to an atmosphere conducive to criticism of business. Affluence, or the level of wealth, allows people the luxury of being critical of social institutions (as Amartya Sen and John Kenneth Galbraith have both noted, people in poverty are primarily concerned with finding enough to eat, not the cause or cure for social ills). In addition, affluence often leads to rising expectations. People generally expect each succeeding generation to have higher standards of living and become dissatisfied if that does not occur. While the recent economic recession may moderate rising expectations in the short-run, the general trend of rising expectations may continue. Such expectations are likely to outpace business’s ability to respond, especially during a recession. Higher levels of education also contribute to a climate of criticism, because people expect more from life, are more aware of ills caused by business, and they are better equipped to research and analyze the causes of social problems. The mass media, particularly television, movies and the internet, often provides negative information about business to the public, which increases the public’s distrust and unfavorable perception of business. Observers of society have also noted three related trends that contribute to criticism of business, an entitlement mentality, the movement for equal rights, and a victimization philosophy. These trends can also be associated with increased levels of education and affluence, and in some ways, are examples of rising expectations. These trends also may be influenced and exacerbated by the media.

1. Question: *Give an example of each of the four levels of power discussed in this chapter. Also, give an example of each of the spheres of business power.*

Answer:Dr. Epstein identified four levels of corporate power—macro, intermediate, micro, and individual. The macro level encompasses the entire corporate system. This can be seen in business’s ability to effectively lobby Congress to pass laws that enhance corporations’ ability to operate profitably, the fact that nearly half of the largest economies in the world are corporate, not national, or in the profound effects that business has on individuals’ lives. The intermediate level of power resides within particular groups of corporations acting in concert. This type of power is often associated with industries, such as the auto manufacturers, insurance companies or financial services firms. An example of the intermediate level of corporate power is the military-industrial complex that influences defense spending. The micro level of corporate power is wielded by an individual firm. The best example of this level is Microsoft, with its dominance of the computer operating system market. Finally, the individual level of corporate power is vested in individual corporate leaders. Jack Welsh, retired CEO of General Electric, Bill Gates, founder of Microsoft, Warren Buffett, the CEO of Berkshire Hathaway, and Martha Stewart, founder of Martha Stewart Living Omnimedia, are good examples of people who exercise the individual level of corporate power.

Spheres of power include economic, political, social/cultural, technological, environmental, and power over the individual. The fact that corporations control billions of dollars in assets and sales shows their economic power. Nearly half of the largest economies in the world are corporations, not nations. Corporate lobbying efforts, political action committees (PACs), and direct influence on elected officials (e.g., former Vice President Cheney’s “secret” energy policy meetings with corporate leaders) all show the political power enjoyed by corporations. Virtually all new technology is manufactured and distributed by corporations, and much of it is invented in corporate R&D labs—such as cellular telephones, medical treatment, and hybrid automobiles. Corporations produce vehicles that are the number one source of air pollution in the world, and determine the fashions that teens wear and the movies that we watch. Because most people work for corporations and buy most of their products from corporations, corporate power over the individual is undeniable.

1. Question: *Explain in your own words the Iron Law of Responsibility and the social contract. Give an example of a shared understanding between you as a consumer or an employee and a firm with which you do business or for which you work.*

Answer:The iron law of responsibility basically says that there is a balance required between power and responsibility to others. The more power an organization has, the more responsibilities that same entity will have. This concept is actually one that most children learn in one form or another. “To whom much is given, much is expected.” “Rights bear responsibilities.” A social contract is an implicit agreement between two parties or social institutions that states the rights and duties of each party. As consumers, we have a right to expect that the products we buy will work properly and not subject us to unreasonable risks. This right extends to financial services products. Abusive practices with credit cards and other predatory practices showed that this social contract was being violated on a regular basis by some corporations. Certain businesses have exploited consumers’ financial circumstances, lack of education or general naivety to bind them to unconscionable contracts. As a result, these consumers may find themselves in situations where they cannot realistically meet their debt obligations. To the extent that these businesses use unfair or predatory practices in selling their financial products, regulation is necessary to protect consumers. As a result, the federal government is justified in creating new regulations to meet this need.

**GROUP ACTIVITY**

This group activity focuses on business criticism and the corporate response. Divide students into groups of four to five students. Distribute the latest edition of national, regional and local newspapers among different groups in the class. Have the group identify the number of articles that criticize business or an employer-related decision. Have the group identify the number of articles that paint business in a favorable light. Ask students to pick a negative article and a positive article for a more in depth analysis. Students should consider the following questions for each article:

* Is the business practice or decision accurately portrayed?
* What is the intended audience of the newspaper? Do you think the affluence, education, expectations and mentality of the intended audience impacts the newspaper’s portrayal of the business decision? If so, how?
* How should the business in question respond to this situation?

Once students have had an opportunity to discuss the review questions in their group, ask each group to report the number of negative versus positive articles and to summarize their answers to the review questions for the class. Look for trends or discrepancies to discuss with the class as a whole. For example, ask students to consider whether they believe business is treated differently by national, regional and local papers based on the responses of each group. Further, ask students to contemplate whether the affluence, education, expectations and mentality of the intended audience affects the way a particular newspaper reports on the actions of business. Finally, encourage students to explore the range of corporate responses to negative and positive media.

**INDIVIDUAL ASSIGNMENT**

Distribute the following instructions to each student:

Select a company and research recent news items that have been released regarding the company. In a written response, note whether the articles were positive or negative for the company. Describe how the company’s actions may impact an individual’s perception of business in the United States. Identify responsibilities that the company has to various stakeholder groups mentioned in the articles. Finally, note any sustainability issues that confront the company and provide suggestions for how the company should handle these issues.