



# 1 The Business/Society Relationship

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## CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

- 1 Define business and society and their interrelationship.
  - 2 Explain pluralism and identify its strengths and weaknesses.
  - 3 Explain how our pluralistic society has become a special-interest society.
  - 4 Discuss the major criticisms of business and characterize business's general response.
  - 5 Identify the major themes of this book: the managerial approach, ethics, and stakeholder management.
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Over the past decade, many news stories have brought to the attention of the public numerous social and ethical issues that have framed the business/society relationship. Because the news media have a flair for the dramatic, it is not surprising that the reporting of these issues has been characterized by criticisms of various actions, decisions, and behaviors on the part of business management. Visible examples of these criticisms have included accusations against H.B. Fuller Co. that it has been selling glue in Honduras that is being indiscriminately used for "sniffing" by Honduran street children, an exposé of Beech-Nut Nutrition Company's practice of selling adulterated apple juice and passing it off to the public as "100% fruit juices," lawsuits against Dow Corning for its sale of defective silicone breast implants, allegations that Sears Roebuck & Co. engaged in sales abuses at its auto centers by pressuring customers to purchase unneeded or unwanted services, and accusations and lawsuits against the tobacco industry for manufacturing and marketing what an increasing number of people consider to be an inherently dangerous product. The litany of such issues could go on and on, but these examples will serve to illustrate the continuing tensions between business and society, which can be traced to specific incidents or events.

In addition to these specific incidents, many general issues that carry social or ethical implications have arisen within the relationship between business and society. Some of these general issues have included sexual harassment in the workplace, toxic waste disposal crises, use of lie detectors, minority rights, AIDS in the workplace, smoking in the workplace, drug testing, insider trading, whistle blowing, product liability crises, fetal protection issues, and use of political action committees by business to influence the outcome of legislation.

This sampling of both specific corporate incidents and general issues typifies the kinds of stories about business and society that one finds today in newspapers and magazines and on television. We offer these issues as illustrations of the widespread interactions between business and society that occur on an almost daily basis.

Most of these corporate episodes are situations in which the public or some segment of the public believes that a firm has done wrong or treated some individual or group unfairly. Indeed, in some cases major laws have been broken. In any event, all of these episodes have involved questions of whether or not business firms have behaved properly. Thus, ethical questions typically reside in these kinds of situations. In today's socially aware environment, a business firm frequently finds itself on the defensive—that is, it finds itself being criticized for some action it has taken or failed to take. Whether a business is right or wrong sometimes does not matter. Powerful groups of individuals can frequently exert enormous pressure on businesses and wield significant influence on public opinion, causing firms to take particular courses of action.

In other cases, such as the general issues mentioned earlier, businesses are attempting to deal with broad societal concerns (such as the “rights” movement, smoking in the workplace, and AIDS in the workplace), on which there are no positions that are clearly acceptable to everyone involved. Nevertheless, businesses must weigh the pros and cons of these issues and adopt the best postures, given the many and conflicting points of view that are being expressed. Although the correct responses are not easy to identify, businesses must respond and be willing to live with the consequences.

At a broad level, we are discussing the role of business in society. Abstract debates on this issue have taken place. In this book we will address some of these concerns—the role of business versus government in our socioeconomic system, what a firm must do to be considered socially responsible, and what managers must do to be thought of as ethical. The issues we mentioned earlier are anything but abstract. They require immediate attention and definite courses of action, which quite often become the next subject of debate on the roles and responsibilities of business in society.

As we reach the millennium, many economic, legal, ethical, and social questions and issues about business and society are under debate. This period is turbulent in the sense that it has been characterized by significant changes in the economy, in society, in technology, and in global relationships. Against this continuing turbulence in the business/society relationship, we want to develop some ideas that are fundamental to an understanding of where we are and how we got here.

## **BUSINESS AND SOCIETY**

This chapter will discuss certain concepts that are important in the continuing business/society discussion. Among these concepts are pluralism, our special-interest society, business criticism, and corporate social response. But let us first define and explain two key terms: *business* and *society*.

### ***Business: Defined***

***Business*** is the collection of private, commercially oriented (profit-oriented) organizations, ranging in size from one-person proprietorships (such as The Grill Restaurant, Chastain's Office Supplies, and Zim's Bagels) to corporate giants (such as

Microsoft, BellSouth, Coca-Cola, and Hewlett-Packard). Between these extremes, of course, are many medium-sized proprietorships, partnerships, and corporations.

When we speak of business in this comprehensive sense, we refer to businesses of all sizes and in all types of industries. But as we embark on our discussion of business and society, we will, for a variety of reasons, doubtless find ourselves speaking more of *big* business in *selected* industries. Why? For one thing, big business is highly visible. Its products and advertising are more widely disseminated. Consequently, it is more frequently in the critical public eye. In addition, people in our society often associate size with power, and the powerful are given closer scrutiny. Although it is well known that small businesses in our society far outnumber large ones, the impact, pervasiveness, power, and visibility of large firms keep them on the front page much more of the time.

With respect to different industries, some are simply more conducive to the creation of visible social problems than are others. For example, many manufacturing firms by nature cause air and water pollution. Such firms, therefore, are more likely to be subject to criticism than, say, a life insurance company, which emits no obvious pollution. The auto industry is a particular case in point. Much of the criticism against General Motors (GM) and the other automakers is raised because of their high visibility as manufacturers, the products they make (which are the largest single source of air pollution), and the popularity of their products (nearly every family owns one or more cars). In the case of the auto industry, we have not yet worked out an ideal solution to the product-disposal problem, so we see unsightly remnants of metal and plastic on every roadside.

Some industries are highly visible because of the advertising-intensive nature of their products (for example, Miller Brewing, General Mills, Toyota, and Procter & Gamble). Other industries (for example, the cigarette, toy, and food products industries) are scrutinized because of the possible effects of their products on health or because of their roles in providing health-related products (pharmaceutical firms).

When we refer to business in its relationship with society, therefore, we may focus our attention too much on large businesses in particular industries. But we should not lose sight of the fact that small- and medium-sized companies also are important. In fact, over the past decade, problems have arisen for small businesses because they have been subjected to many of the same regulations and demands as those imposed by government on large organizations. In many instances, however, smaller businesses do not have the resources to meet the requirements for increased accountability on many of the social fronts that we will discuss.

### ***Society: Defined***

*Society* may be defined as a community, a nation, or a broad grouping of people having common traditions, values, institutions, and collective activities and interests. As such, when we speak of business/society relationships, we may in fact mean business and the local community (business and Cincinnati), business and the United States as a whole, or business and a specific group of people (consumers, minorities, stockholders).

When we refer to business and the entire society, we think of society as being composed of numerous interest groups, more or less formalized organizations, and a variety of institutions. Each of these groups, organizations, and institutions is a

purposeful aggregation of people who have banded together because they represent a common cause or share a set of common beliefs about a particular issue. Examples of interest groups or purposeful organizations are numerous: Friends of the Earth, Common Cause, chambers of commerce, National Association of Manufacturers, Mothers Against Drunk Driving, and Ralph Nader's consumer activists.

### **THE MACROENVIRONMENT**

The environment is a key concept in understanding business/society relationships. At its broadest level, the environment might be thought of in terms of a macroenvironment, which includes the total environment outside the firm. The macroenvironment is the total societal context in which the organization resides. In a sense, the idea of the macroenvironment is just another way of thinking about society. In fact, early courses on business and society in business schools were sometimes (and some still are) entitled "Business and Its Environment." The concept of the macroenvironment, however, evokes different images or ways of thinking about business/society relationships and is therefore useful in terms of framing or understanding the total business context.

The view of the macroenvironment as developed by Liam Fahey and V.K. Narayanan is useful for our purposes. They see the macroenvironment as being composed of four segments: social, economic, political, and technological.<sup>1</sup>

The *social* segment (or environment) focuses on demographics, lifestyles, 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. The *economic* segment focuses on the nature and direction of the economy in which business operates. Variables of interest might include such indices as gross national product, inflation, interest rates, unemployment rates, foreign-exchange fluctuations, and various other aspects of economic activity. In the past decade, the global economy has dominated the economic segment of the environment.

The *political* segment focuses on the processes by which laws get passed and officials get elected and all other aspects of the interaction between the firm, political processes, and government. Of particular interest to business in this segment are the regulatory process and the changes that occur over time in business regulation, various industries, and various issues. Finally, the *technological* segment represents the total set of technology-based advancements or progress taking place in society. Pertinent aspects of this segment include new products, processes, and materials, as well as the states of knowledge and scientific advancement in both theoretical and applied senses. The process of technological change is of special importance here.<sup>2</sup>

Thinking of business/society relationships in terms of the macroenvironment provides us with a different but useful way of understanding the kinds of issues that constitute the broad milieu in which business functions. Throughout this book we will see evidence of these environmental segments in a state of turbulence and will come to appreciate what challenges managers face as they strive to develop effective organizations. Each of the many specific groups and organizations that make up our pluralistic society can typically be traced to one of these four environmental segments; therefore, it is helpful to appreciate at a conceptual level what these segments are.

## **ROLE OF PLURALISM**

Our society's pluralistic nature makes for business/society relationships that are more interesting and novel than those in some other societies. *Pluralism* is a condition in which there is diffusion of power among the society's many groups and organizations. Joseph W. McGuire's straightforward definition of a pluralistic society is useful for our purposes: "A pluralistic society is one in which there is wide decentralization and diversity of power concentration."<sup>3</sup>

The key descriptive terms in this definition are *decentralization* and *diversity*. In other words, power is dispersed. Power is not in the hands of any single institution (such as business, government, labor, or the military) or a small number of groups. Many years ago, in *The Federalist Papers*, James Madison speculated that pluralism was a virtuous scheme. He correctly anticipated the rise of numerous organizations in our society as a consequence of it. Some of the virtues of a pluralistic society are summarized in Figure 1-1.

### ***Weaknesses and Strengths of Pluralism***

All societal systems have their weaknesses, and pluralism is no exception. One weakness in a pluralistic system is that it creates an environment in which the diverse institutions pursue their own self-interests, with the result that there is no central direction to unify individual pursuits. Another weakness is that groups and institutions proliferate to the extent that their goals tend to overlap, thus causing confusion as to which organizations best serve which functions. Pluralism forces conflict 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.

History and experience have demonstrated, however, that the merits of pluralism are considerable and that most people in our society prefer the situation that has resulted from it. Indeed, pluralism has worked to achieve equilibrium in the balance of power of the dominant institutions that constitute the American way of life.

### ***Business versus Multiple Publics and Systems***

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 broad 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 all those persons, groups, and institutions that constitute our society. This situation raises an important point: When we speak of business/society relationships, we usually refer either to particular segments or subgroups of society (consumerists, women, minorities, environmentalists, youth) or to business and some system in our society (politics, law, custom, religion, economics). These groups of people or systems may also be referred to in an institutional form (business and the courts, business and Common Cause, business and the church, business and the AFL-CIO, business and the Federal Trade Commission).

Figure 1-2 displays in pictorial form the points of interface between business and some of these multiple publics, or stakeholders, with which business has social relationships. Stakeholders are those groups or individuals with whom an organization interacts or has interdependencies. We will develop the stakeholder concept further

**FIGURE 1-1 The Virtues of a Pluralistic Society**

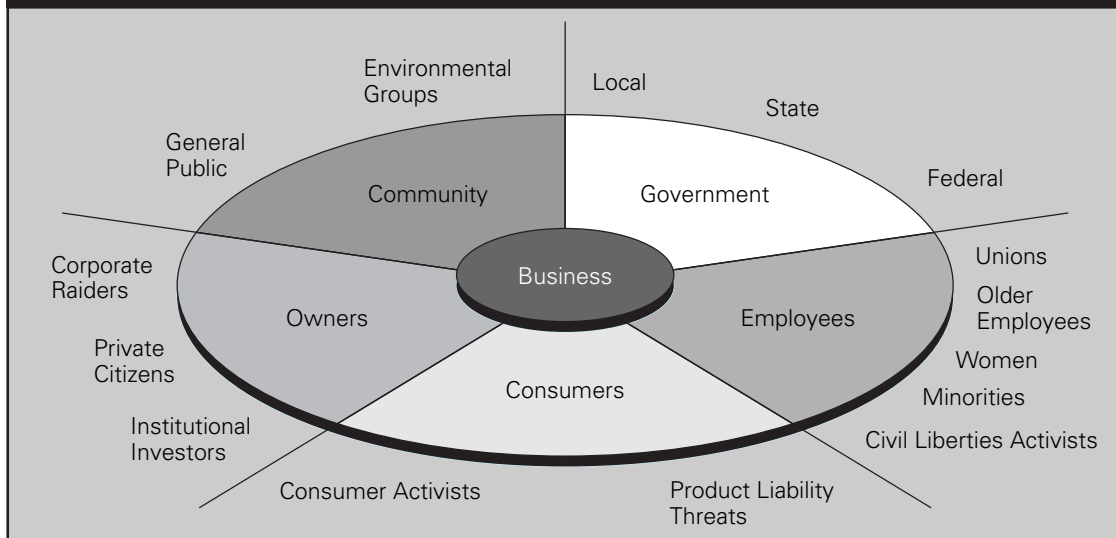
- A pluralistic society prevents power from being concentrated in the hands of a few.
- A pluralistic society maximizes freedom of expression and action and strikes a balance between monism (social organization into one institution) on the one hand and anarchy (social organization into an infinite number of persons) on the other.<sup>a</sup>
- In a pluralistic society, the allegiance of individuals to groups is dispersed.
- Pluralism creates a wildly diversified set of loyalties to many organizations and minimizes the danger that a leader of any one organization will be left uncontrolled.<sup>b</sup>
- Pluralism provides a built-in set of checks and balances, in that groups can exert power over one another with no single organization (business, government) dominating and becoming overly influential.

**SOURCES:** <sup>a</sup>Keith Davis and Robert L. Blomstrom, *Business and Society: Environment and Responsibility*, 3d ed. (New York: McGraw-Hill, 1975), 63. <sup>b</sup>Joseph W. McGuire, *Business and Society* (New York: McGraw-Hill, 1963), 132.

in Chapter 3. Note that each of the stakeholder groups may be further divided into more specific subgroups.

If sheer numbers of relationships are an indicator of complexity, we could easily argue that business’s current relationships with different segments of society constitute a truly complex environment. And if we had the capacity to draw a diagram similar to Figure 1-2 that noted all the detail composing each of those points of interface, it would be too overwhelming to comprehend. Today, business management cannot sidestep this problem, because management must live with these interfaces on a daily basis.

**FIGURE 1-2 Business and Selected Stakeholder Relationships**



## OUR SPECIAL-INTEREST SOCIETY

One could well argue that our pluralistic society has become a *special-interest society*. That is, we have carried the idea of pluralism to an extreme position in which we have literally tens of thousands of special-interest groups, each pursuing its own limited agenda. General-purpose interest organizations, such as Common Cause and the United States Chamber of Commerce, still exist. However, the past two decades have been characterized by increasing specialization on the part of interest groups representing all sectors of society—consumers, employees, communities, the environment, government, and business itself. One recent 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 also have become increasingly activist, intense, diverse, and focused on single issues. Such groups are increasingly committed to their causes.

The consequence of such specialization is that each of these groups has been able

to attract a significant following that is dedicated to the group’s goals. Increased memberships have meant increased revenues and a clearer focus as each of these groups has aggressively sought its limited purposes. The likelihood of these groups working at cross-purposes and with no unified set of goals has made life immensely more complex for the major institutions, such as business, that have to deal with them.

### SEARCH THE WEB

One of the most interesting and demanding pressures on the business/society relationship is that exerted by special-interest groups. Many of these groups focus on specific topics, then direct their concerns or demands to companies they wish to influence. Special-interest groups have become more numerous and increasingly activist, diverse, and focused on single issues. Unique companies, such as Good Money, Inc., which specialize in socially responsible and ethical investing, consuming, and business practices, have reason to catalog and monitor these interest groups. One of Good Money’s Web pages, “Social Investing and Consuming Activist Groups and Organizations,” found at [www.goodmoney.com/directry\\_active.htm](http://www.goodmoney.com/directry_active.htm), lists and briefly describes a few of the special-interest groups with which business must contend. Good Money’s Web page contains more information about the following special-interest groups, but it catalogs many more.

- *20/20 Vision*—An advocacy organization dedicated to protecting the environment and promoting peace through grassroots action.
- *EarthWINS*—An organization dedicated to supporting activism for the environment, peace, justice, human rights, and Native Americans.
- *Environmental Defense Fund*—A group that reports and acts on a broad range of regional, national, and international environmental issues.
- *International Fund for Animal Welfare*—An organization that promotes the just and kind treatment of animals.
- *Public Interest Research Group (The PIRGs)*—Groups that promote social action to safeguard the public interest.
- *Rainforest Action Network*—An organization whose mission is to save the world’s rainforests from destruction.

## BUSINESS CRITICISM AND CORPORATE RESPONSE

It is inevitable in a pluralistic, special-interest society that the major institutions that make up that society, such as business and government, will become the subjects of considerable criticism. Our purpose here is not so much to focus on the negative as to illustrate how the process of business criticism has shaped the major issues in the evolution of the business/society relationship today. Were it not for the fact that individuals and groups have been critical of business, we would not be dealing with this subject in a book, and no changes would occur in the business/society relationship over time. But such changes *have* taken place, and it is helpful to see the role that business criticism has assumed. The idea of business response to criticism will be developed more completely in Chapter 2, where we present the business criticism/response cycle.

Figure 1–3 illustrates how selected factors that have arisen in the societal environment have created an atmosphere in which business criticism has taken place. In this chapter, we see response on the part of business as entailing an *increased concern for the social environment* and a *changed social contract* (relationship) between business and society.

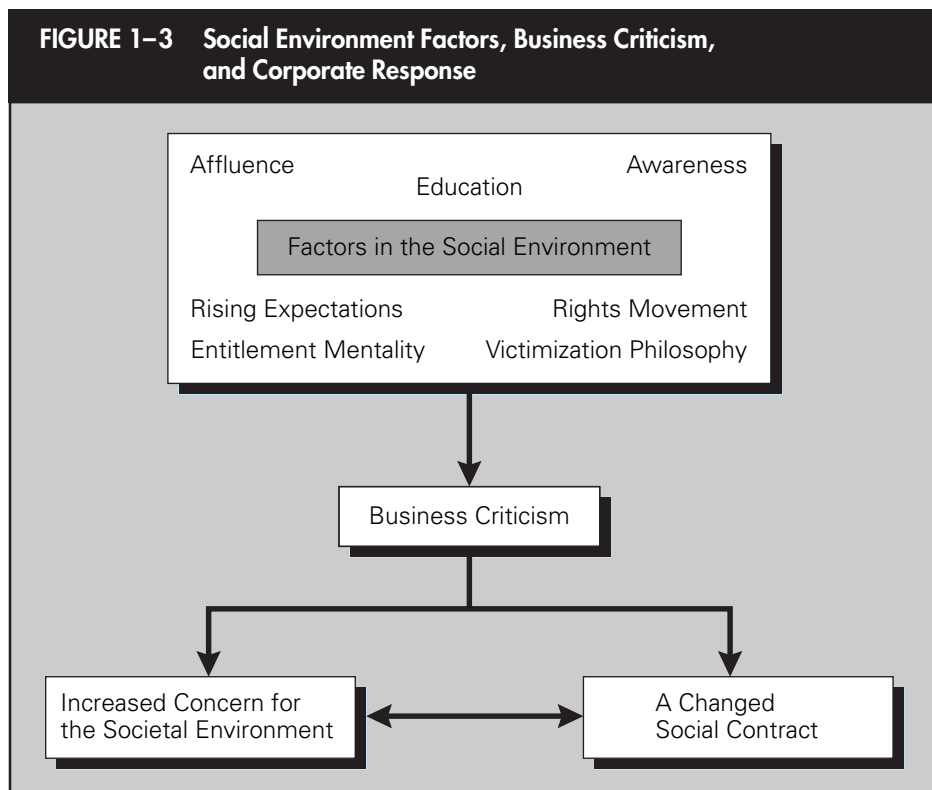
**Factors in the Social Environment**

Many factors in the social environment have created a climate in which criticism of business has taken place and flourished. Some of these factors are relatively independent, and some are interrelated with others. In other words, they occur and grow hand in hand.

**Affluence and Education**

Two factors that have developed side by side are *affluence* and *education*. As a society becomes more affluent and better educated, higher expectations for its major institutions, such as business, naturally follow.

*Affluence* refers to the level of wealth, disposable income, and standard of living of the society. Measures of our country’s standard of living indicate that it has been rising for decades. Although some Americans perceive that U.S. living standards have stopped rising, data from the Conference Board indicate that life is better for most





of us now than in the past and continues to be so in spite of the recent state of the economy, which has been mixed over the past few years. The Conference Board concludes: "All told, the period 1970–1990 represents an era of substantial economic expansion and a marked improvement in the living standards of the average American." Although the expansion has subsided somewhat in the 1990s, the Conference Board further observes that today's young adults are living nearly twice as well as their parents and that this improvement in American living standards will continue throughout this final decade of the twentieth century.<sup>4</sup> When asked in a 1997 *Wall Street Journal*/NBC News poll if they were satisfied with their financial situations, 71 percent of Americans indicated they were, and this was a new high over previous years.<sup>5</sup>

Alongside an increased standard of living has been a growth in the average formal education of the populace. The Census Bureau reported that between 1970 and 1995, the percentage of American adults who were high school graduates grew from 55 to 81, and the percentage who were college graduates increased from 11 to 22. As people continue to become more highly educated, their expectations of life generally rise. The combination of affluence and education forms the underpinning for a climate in which societal criticism of major institutions, such as business, naturally arises.

#### **Awareness Through Television**

Closely related to formal education is the high and growing level of public *awareness* in our society. Although newspapers and magazines are still read by only a fraction of our population, a more powerful medium—television—is accessed by virtually our entire society. Through television, the citizenry gets a variety of information that contributes to a climate of business criticism.

First, let us establish the power and prevalence of TV. Several statistics document the extent to which our society is dependent on TV for information. According to data compiled by the A. C. Nielsen Company, the average daily time spent viewing television per household rose from 4½ hours in 1950 to a little over 7 hours in 1983. Recent data suggests that this figure is still valid today. As one writer put it: "Think about it. A typical day for an American household now divides into three nearly equal parts: eight hours of sleep, seven hours of TV, and nine hours of work or school, including getting there and back."<sup>6</sup> Other statistics indicate that there were 2.3 TVs in the average home in 1990, that over 98 percent of American homes have at least one TV,<sup>7</sup> and that from ages 2 to 18 the average American spends 11,000 hours in school but more than 20,000 hours in front of the TV.<sup>8</sup> These statistics continue to be valid. Television is indeed a powerful medium in our society.

*Straight News and Investigative News Programs.* There are at least three ways in which information that leads to criticism of business appears on television. First, there are *straight news shows*, such as the evening news on the major networks, and *investigative news programs*. It is debatable whether or not the major news programs are treating business fairly, but in one major study, an overwhelming 73 percent of the business executives surveyed indicated that business and financial coverage on TV news was prejudiced against business. TV pollster Lou Harris suggests that TV news has to deal with subjects too briefly and that, whenever a company makes the evening news, it is usually because the story is unfavorable.<sup>9</sup>

In another major study, chief executive officers of companies of all sizes reported overwhelmingly that newspapers and magazines report business and economic news with a negative bias. Of the total number of CEOs surveyed, 19 percent thought such coverage was *very negative*, 46 percent thought it was *negative*, 27 percent thought it was *neutral*, and only 7 percent thought it was *positive*.<sup>10</sup> This negativism in reporting both business news and political news led James Fallows to write a book titled *Breaking the News: How the Media Undermine American Democracy*. Fallows skewers what media writer Howard Kurtz calls “drive-by journalism,” which tends to take down all institutions in its sights.<sup>11</sup>

Although many business leaders believe that the news media are out to get them by exaggerating the facts and overplaying the issues, journalists see it differently. They counter that business executives try to avoid them, are evasive when questioned about major issues, and try to downplay problems that might reflect negatively on their companies. The consequence is an adversarial relationship that perhaps helps to explain some of the unfavorable coverage.

Business has to deal not only with the problems of straight news coverage but also with a growing number of investigative news programs, such as “60 Minutes,” “20/20,” “Dateline NBC,” and “Primetime Live,” that seem to thrive on exposés of business wrongdoings or questionable practices. Whereas the straight news programs make some effort to be objective, the investigative shows are tougher on business. These shows are enormously popular and influential, and many companies squirm when reporters show up on their premises complete with camera crews.

What is behind this apparent antagonism between business and the news media? There are many answers. One fundamental reason is that business executives and journalists differ considerably in their basic political ideologies and attitudes concerning the major business and economic issues of the day. With respect to political ideology, studies show that journalists are much more liberal than either CEOs of major corporations or the general public. Journalists overwhelmingly vote Democratic, whereas CEOs tend to vote Republican. Although journalists say that they do not oppose the basic institutions of capitalism, they are much less likely than business executives to think that unregulated markets are consistent with the public interest, and they are considerably more likely to think that regulation is needed to protect the public.<sup>12</sup> Furthermore, it should be noted that some businesses do indeed engage in questionable practices that the news legitimately must cover.

*Prime-Time Television Programs.* The second way in which criticisms of business appear on TV is through *prime-time television programs*. Television’s depiction of businesspeople brings to mind the scheming J.R. Ewing of “Dallas,” whose backstabbing shenanigans dominated prime-time TV for over a decade (1978–1991) before it went off the air. In most cases, the businessperson is portrayed across the nation’s television screens as a smirking, scheming, cheating, and conniving “bad guy.” A vice president of the Chamber of Commerce of the United States put it this way: “There is a tendency in entertainment television to depict many businesspeople as wealthy, unscrupulous, and succeeding through less-than-honorable dealings. This is totally incorrect.”<sup>13</sup>

A major research study on this issue concluded that most businesspeople depicted in television programs and serious literature have been characterized as greedy, unethical, and immoral (or amoral). Another researcher has argued that

there is a much higher ratio of “bad guys” among businesspeople than among doctors or police officers.<sup>14</sup>

Another major study conducted over an 8-week period analyzed portrayals of businesspeople on major prime-time shows. Businesspeople proved to be the major staple of prime-time shows, appearing in about half the shows studied. In this study, not one businessperson was of the working class or poor. Many resided in beautifully furnished estates, were pampered by servants, and sported expensive jewelry and clothing. How were they portrayed? Sixty percent were portrayed negatively. Of the 60 percent who were “bad guys,” 35 percent did something illegal; 32 percent were greedy or otherwise self-interested; 21 percent “played the fool,” mainly in sitcoms; and the remaining 12 percent were malevolent. In general, big-business people fared worse than small-business people. Businesspeople were also shown to be at their worst when performing purely business functions, more so than when they were performing under purely personal circumstances.<sup>15</sup>

Any redeeming social values that business and businesspeople may have rarely show up on prime-time television. Rather, businesspeople are cast as evil and greedy social parasites whose efforts to get more for themselves are justly condemned and usually thwarted.<sup>16</sup> There are many views as to why this portrayal has occurred. Some would argue that business is being characterized accurately. Others say that the television writers are dissatisfied with the direction our nation has taken and believe they have an important role in reforming American society.<sup>17</sup> Apparently they think that this treatment of business will bring about change.

*Commercials.* The third way in which television contributes to business criticism is through *commercials*. To the extent that business does not honestly and fairly portray its products on TV, it undercuts its own credibility. Commercials are a two-edged sword. On the one hand, they may sell more products in the short run. On the other hand, they may damage business’s long-term credibility if they promote products deceptively.

One major study hints at how this occurs. In an investigation of how television commercials were reviewed by children, Harvard Business School researchers found considerable skepticism, tension, and anger among children because of misleading advertising. By age 11, the study concluded, “Most children have already become cynical—ready to believe that like advertising, business and other institutions are riddled with hypocrisy.” About three-fourths of the 11- and 12-year-olds studied thought that advertising is sometimes designed to “trick” the consumer.<sup>18</sup>

Thus, we see three specific settings—news coverage, prime-time programming, and commercials—in which a strained environment is being created and fostered by this “awareness” factor made available through the power and pervasiveness of television. We should make it clear that the media are not to blame for business’s problems. If it were not for the fact that the behavior of some businesses is questionable, the media would not be able to create this kind of environment. The media, therefore, should be seen as only one major factor that contributes to the environment in which business now finds itself.

### **Revolution of Rising Expectations**

In addition to affluence, formal education, and awareness through television, there are other societal developments that have fostered the climate in which business criticism has occurred. Growing out of these factors has been a *revolution of rising*

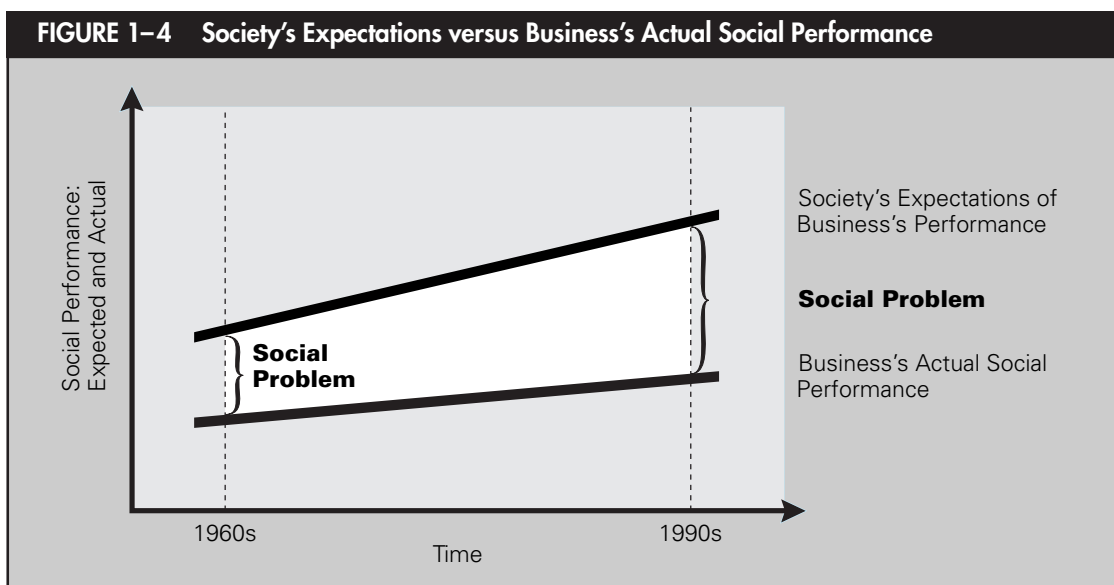
*expectations*. This might be defined as an attitude or a belief that each succeeding generation ought to have a standard of living higher than that of its predecessor and that its expectations of major institutions, such as business, should be greater also. Building on this line of thinking, one could argue that business is criticized today because society's expectations of its performance have outpaced business's ability to meet these growing expectations. To the extent that this has occurred over the past 20 to 30 years, business finds itself with a larger problem.<sup>19</sup>

A *social problem* has been described as a gap between society's expectations of social conditions and the present social realities.<sup>20</sup> From the viewpoint of a business firm, the social problem is the gap between society's expectations of the firm's social performance and its actual social performance. The nature of rising expectations is such that they typically outpace the responsiveness of institutions such as business, thus creating a constant condition that is conducive to criticism. Figure 1-4 illustrates the larger "social problem" that business faces today.

Although the general trend of rising expectations continues, there are signs that the revolution may have moderated in spite of citizens' beliefs that their job situations, health, family lives, and overall quality of life have been better in the 1990s. The emergence or exacerbation of social problems such as crime, poverty, homelessness, AIDS, environmental pollution, and alcohol and drug abuse threaten to worsen and to moderate rising expectations.<sup>21</sup>

#### Entitlement Mentality

One outgrowth of the revolution of rising expectations has been an *entitlement mentality*. Several years ago, the Public Relations Society conducted a study of public expectations, with particular focus on public attitudes toward the *philosophy of entitlement*. This philosophy is the general belief that someone is owed something (for



example, a job) just because she or he is a member of society. The survey was conducted on a nationwide basis, and respondents were asked to categorize items they thought people (1) were entitled to have and (2) have now. A sampling of the findings, shown in Figure 1–5, illustrates some interesting perspectives on what people think are due them.<sup>22</sup> In the mid-1990s, the implicit assumption underlying the health care debate was that health care is a right or an entitlement of the citizenry. If such health care legislation is ever passed, it is estimated that health care would instantly become the largest entitlement program in U.S. history, exceeding Social Security and Medicare.

For each of the items studied, as shown in Figure 1–5, there was a yawning gap between those who thought that the public was entitled to a particular benefit and those who thought that the public already had it. The sizes of the differences boldly underscored what pollsters had been telling business and government for years—that society is not satisfied with the performance of these institutions.

### Rights Movement

The revolution of rising expectations, the entitlement mentality, and all of the factors discussed so far have contributed somewhat to what might be termed the *rights movement* that is present in our country today. The Bill of Rights was attached to the U.S. Constitution almost as an afterthought and was virtually unused for more than a century. But in the past several decades, and at an accelerating pace, the U.S. Supreme Court has heard large numbers of cases aimed at establishing for some groups various rights that perhaps never occurred to the founders of our nation.<sup>23</sup>

Some of these rights, such as the right to privacy and the right to due process, have been perceived as generic for all citizens. However, in addition to these generalized rights, there has been pressure for rights for particular groups in our society. This modern movement began with the civil rights cases of the 1950s. Many groups have been inspired by the success of African Americans and have sought success by similar means. Thus, we have seen the protected status of minorities grow to include Hispanic Americans, Asian Americans, Native Americans, women, the handicapped, the aged, and other groups. At various levels—federal, state, and local—we have seen claims for the rights of homosexuals, smokers, nonsmokers, obese persons, and AIDS victims, just to mention a few.

There seem to be no limits to the numbers of groups and individuals seeking “rights” in our society. And business, as one of society’s major institutions, has been

**FIGURE 1–5 Findings on the Entitlement Mentality**

<i>Item</i>	<i>Entitled to Have (Percent)</i>	<i>Have It Now (Percent)</i>
1. Steadily improving standard of living	88	39
2. A guaranteed job for all those willing and able to work	85	34
3. Products certified as safe and not hazardous to one’s health if properly used	90	54

hit with an ever-expanding array of constraints and expectations as to how people want to be treated and dealt with, not only as employees but also as owners, consumers, and members of the community. The “rights” movement is interrelated with the special-interest society we discussed earlier and sometimes follows an “entitlement” mentality among some people and within some sectors of society.

John Leo, a columnist for *U.S. News & World Report*, has argued for a moratorium on new rights.<sup>24</sup> He has argued that freshly “minted” rights are so common these days that they even appear on cereal boxes. He cites as an example Post Alpha-Bits® boxes, which recently carried a seven-point “Kids Bill of Rights” that included one right concerning world citizenship (“you have the right to be seen, heard, and respected as a citizen of the world”) and one right entitling each cereal buyer to world peace (“you have the right to a world that is peaceful and an environment that is not spoiled”). One cannot help but speculate what challenges business will face when every “goal, need, wish, or itch” is framed as a right.<sup>25</sup>

### **Victimization Philosophy**

It became apparent to several observers during the early 1990s that there are growing numbers of individuals and groups who see themselves as having been victimized by society. In 1991, *New York* magazine featured a cover story on “The New Culture of Victimization,” with the title “Don’t Blame Me!”<sup>26</sup> *Esquire* magazine probed what it called “A Confederacy of Complainers.”<sup>27</sup> Charles Sykes published *A Nation of Victims: The Decay of the American Character*.<sup>28</sup> Sykes’ thesis, with which these other observers would agree, is that the United States is fast becoming a “society of victims.”

What is particularly interesting about the new philosophy of victimization is the widespread extent to which it is infecting the population. According to these writers, the victim mentality is just as likely to be seen among all groups in society—regardless of race, gender, age, or any other classification. Sykes observed that previous movements may have been seen as a “revolution of rising expectations,” whereas the current movement might be called a “revolution of rising sensitivities” in which grievance begets grievance. In the society of victims, feelings rather than reason prevail and people start perceiving that they are being unfairly “hurt” by society’s institutions—government, business, and education. One example is worthy of note. In Chicago, a man complained to the Minority Rights Division of the U.S. Attorney’s office that McDonald’s was violating equal-protection laws because its restaurants’ seats were not wide enough for his unusually large backside. As Sykes observes, “The new culture reflects a readiness not merely to feel sorry for oneself but to wield one’s resentments as weapons of social advantage and to regard deficiencies as entitlements to society’s deference.”<sup>29</sup>

As the example above illustrates, the philosophy of victimization is intimately related to and sometimes inseparable from the rights movement and the entitlement mentality. Taken together, these new ways of viewing one’s plight—as someone else’s unfairness—may pose special challenges for business managers in the future.

In summary, affluence and education, awareness through television, the revolution of rising expectations, an entitlement mentality, the rights movement, and the victimization philosophy have formed a backdrop against which criticism of business has grown. To be sure, this list does not summarize all issues and trends that are present in the social environment. However, it does help to explain why we have an

environment that is so conducive to criticism of business. In the next two subsections, we will see what some of the criticisms of business have been, and we will discuss some of the general results of such criticisms.

### **Criticisms: Use and Abuse of Power**

Many criticisms have been leveled at business over the years: It's too big, it's too powerful, it pollutes the environment and exploits people for its own gain, it takes advantage of workers and consumers, it does not tell the truth, and so on. A catalog of business criticisms would occupy too much space to be presented here. If one were to identify a common thread that seems to run through all the complaints, it seems to be business's use and abuse of power. Before discussing business power in more detail, we should note that the major criticism seems to be that business often engages in questionable or unethical behavior with respect to its stakeholders.

Now, what is power? *Power* refers to the ability or capacity to produce an effect or to bring influence to bear on a situation. Power, in and of itself, may be either positive or negative. In the context of business criticism, however, power typically is perceived as being abused. Business certainly does have enormous power, but whether it abuses power is an issue that needs to be carefully examined. We will not settle this issue here, but the criticism that business abuses power remains.

### **Levels of Power**

To understand corporate power, one must recognize that it resides at several levels. Edwin M. Epstein identified four such levels: the macro level, the intermediate level, the micro level, and the individual level.<sup>30</sup> The *macro level* refers to the corporate system—the totality of business organizations. Power here emanates from the sheer size and dominance of the corporate system. The *intermediate level* refers to groups of corporations acting in concert in an effort to produce a desired effect—to raise prices, control markets, dominate purchasers, promote an issue, or pass or defeat legislation. Prime examples are office equipment leaders, banks, OPEC, defense contractors, and the Conference Board, pursuing interests they have in common. The *micro level* of power is the level of the individual firm. This might refer to the exertion of power by any major corporation—GM, IBM, Procter & Gamble, or Wal-Mart, for example. The final level is the *individual level*. This refers to the individual corporate leader—Ted Turner, Donald Trump, Michael Eisner (Disney), Jill Barad (Mattel), Bill Gates (Microsoft), or Anita Roddick (The Body Shop).

The important point here is that as one analyzes corporate power, one should think in terms of the different levels at which that power is manifested. When this is done, it is not easy to conclude whether corporate power is excessive or has been abused.

### **Spheres of Power**

There are not only *levels* of power to examine but also many different *spheres* in which this power resides. Figure 1–6 briefly portrays one way of looking at the levels Epstein identified and some of the spheres of power to which he was referring. Economic power and political power are two spheres that are referred to often, but business has other, more subtle forms of power as well. These other spheres include social and cultural power, power over the individual, technological power, and environmental power.

**FIGURE 1–6 Levels and Spheres of Corporate Power**

Levels \ Spheres	Macro Level (the business system)	Intermediate Level (several firms)	Micro Level (single firm)	Individual Level (executive)
Economic				
Social / Cultural				
Individual				
Technological				
Environmental				
Political				

Is the power of business excessive? Does business abuse its power? Obviously, many people think so. To provide reasonable and fair answers to these questions, however, one must very carefully stipulate which level of power is being referred to and in which sphere the power is being employed. When this is done, it is not simple to arrive at clear or fair answers.

Furthermore, the nature of power is such that it is sometimes wielded unintentionally. Sometimes it is consequential; that is, it is not wielded intentionally but nevertheless exerts its influence even though no attempt is made to exercise it.<sup>31</sup> An example of this might be a large firm such as IBM purchasing huge parcels of land in cities all across the United States to keep in its real estate inventory for possible future use. Even if IBM comes right out and says that it has no definite plans to move to any of these cities—that is, even if it makes an attempt *not* to wield power—it still has enormous power with the various city councils and county commissions in the areas in which it has purchased land.

#### **Balance of Power and Responsibility**

Whether or not business abuses its power or allows its use of power to get out of hand is a central issue that cuts through all the topics we will be discussing in this book. But power cannot be viewed in isolation from responsibility, and this power/responsibility relationship is the foundation of calls for corporate social responsibility. Davis and Blomstrom articulated this major concern in what they called the *Iron Law of Responsibility*: “In the long run, those who do not use power in a manner which society considers responsible will tend to lose it.”<sup>32</sup> Stated another way, whenever power and responsibility become substantially out of balance, forces will be generated to bring them into closer balance.

When power gets out of balance, a variety of forces come to bear on business to be more responsible and more responsive to the criticisms being made against it.



Some of these more obvious forces include governmental actions, such as increased regulations and new laws. The investigative news media become interested in what is going on, and a whole host of special-interest groups bring pressure to bear.

The tobacco industry is an excellent example of an industry that is feeling the brunt of efforts to address allegations of abuse of power. Complaints that the industry produces a dangerous, addictive product and markets that product to young people have been escalating for years. The U.S. Food and Drug Administration (FDA) has asserted jurisdiction over cigarettes and is trying to rein in tobacco companies through aggressive regulation. One major outcome of this effort to bring the tobacco industry under control was a proposed \$368 billion settlement over 25 years in which the tobacco firms settle lawsuits against them, submit to new regulations, and meet strict goals for reducing smoking in the United States. Although the industry continues to fight these measures, as it always has, it is expected that by the year 2022 tobacco's role in American society will be forever reduced.<sup>33</sup>

#### ***Response: A Changing Social Environment and Social Contract***

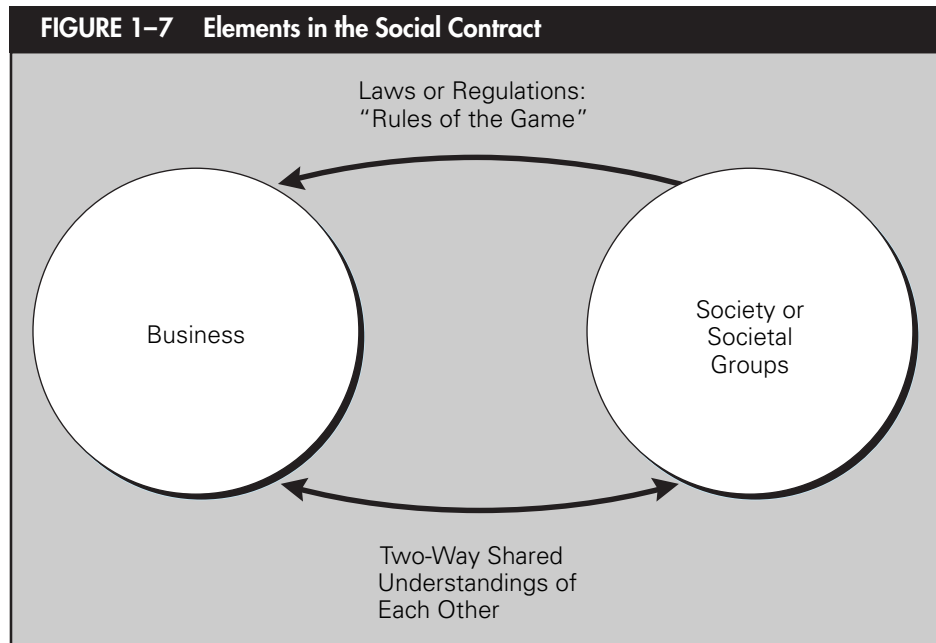
Growing out of criticisms of business and the idea of the power/responsibility equation has been an increased concern for the social environment on the part of business and a changed social contract. We previously indicated that the *social environment* was composed of such factors as demographics, lifestyles, and social values of the society. It may also be seen as a collection of conditions, events, and trends that reflect how people think and behave and what they value. As firms have sensed that the social environment and the expectations of business are changing, they have realized that they have to change, too. The *social contract* is a set of two-way understandings that characterize the relationship between major institutions—in our case, business and society. The social contract is changing, and this change is a direct outgrowth of the increased importance of the social environment.

The social contract between business and society, as illustrated in Figure 1–7, is partially articulated through:

1. *Laws and regulations* that society has established as the framework within which business must operate.
2. *Shared understandings* that prevail as to each group's expectations of the other.

It is clear how laws and regulations spell out the “rules of the game” for business. Shared understandings, on the other hand, create more confusion and room for misunderstandings. In a sense, these shared understandings reflect mutual expectations regarding each other's roles, responsibilities, and ethics. These unspoken components of the social contract represent what Donaldson and Dunfee refer to as the normative perspective on the relationship (that is, what “ought” to be done by each party to the contract).<sup>34</sup>

A parallel to the business/society relationship may be seen in the relationship between a professor and the students in his or her class. University regulations and the syllabus for the course spell out the formal aspects of this relationship. The shared understandings address those expectations that are generally understood but not necessarily spelled out formally. An example might be “fairness.” The student expects the professor to be “fair” in making assignments, in the level of work



expected, in grading, and so on. Likewise, the professor expects the student to be fair in evaluating him or her on teaching evaluation forms, to be fair by not passing off someone else's work as his or her own, and so on.

An editorial from *Business Week* magazine on the subject of the social contract summarizes well the modern era of business/society relationships: "Today it is clear that the terms of the contract between society and business are, in fact, changing in substantial and important ways. Business is being asked to assume broader responsibilities to society than ever before, and to serve a wider range of human values. . . . Inasmuch as business exists to serve society, its future will depend on the quality of management's response to the changing expectations of the public."<sup>35</sup> More recently, a *Business Week* editorial commented on how the role of the corporation in society is continuing to be challenged. The writer made it clear that citizens today want corporations to do more for society than boost their stock prices. The editorial concluded with this observation: "U.S. corporations may have to strike a new balance between the need to cut costs to be globally competitive and the need to be more responsible corporate citizens."<sup>36</sup> Such a statement suggests that we will continue to witness changes in the social contract between business and society.

### **FOCUS OF THE BOOK**

This book takes a managerial approach to the business/society relationship. The managerial approach emphasizes two major themes that are important today: business ethics and stakeholder management. First, let us discuss the managerial focus.

### **Managerial Approach**

Managers are practical, and they have begun to deal with social and ethical concerns in ways similar to those they have used to deal with traditional business functions—production, marketing, finance, and so forth—in a rational, systematic, and administratively sound fashion. By viewing issues of social concern from a managerial frame of reference, managers have been able to reduce seemingly unmanageable social concerns to ones that can be dealt with in a rational fashion. Yet, at the same time, managers have had to integrate traditional economic considerations with ethical or moral considerations.

A managerial approach to the business/society relationship confronts the individual manager continuously with questions such as:

- What changes are occurring or will occur in society's expectations of business that mandate business's taking the initiative with respect to particular societal or ethical problems?
- Did business in general or our firm in particular have a role in creating these problems?
- What impact is social change having on the organization, and how should we best respond to it?
- Can we reduce broad social problems to a size that can be effectively addressed from a managerial point of view?
- With which social and ethical problems can we act most effectively?
- What are the specific problems, alternatives for solving these problems, and implications for management's approach to dealing with social issues?
- How can we best plan and organize for responsiveness to socially related business problems?

### **Two Broad Classes of Social Issues**

From the standpoint of urgency in managerial response, management is concerned with two broad classes of social issues. First, there are those issues or *crises* that arise on the spur of the moment and for which management formulates relatively quick responses. These may be either issues that management has never faced before or issues it has faced but does not have time to deal with, except on a short-term basis. A typical example might be a protest group that shows up on management's doorstep one day, arguing vehemently that the company should withdraw its sponsorship of a violent television show scheduled to air the next week.

Second, there are issues or problems that management has time to deal with on a more long-term basis. These issues include environmental pollution, employment discrimination, product safety, and occupational safety and health. In other words, these are *enduring* issues that will be of concern to society for a long time and for which management must develop a reasonably thoughtful organizational response. It is true that issues of this type could also appear in the form of ad hoc problems necessitating immediate responses, but they should suffice to illustrate areas that have matured somewhat. Management must thus be concerned with both short-term and long-term capabilities for dealing with social problems and the organization's social performance.

Our managerial approach, then, will be one that (1) clarifies the nature of the social or ethical issues that affect organizations and (2) suggests alternative managerial responses to these issues in a rational and systematic fashion. The test of success will be the extent to which we can improve an organization's social performance by taking a managerial approach rather than dealing with the issues on an ad hoc basis.

### ***The Ethics Theme***

As hard as one might try to extricate business from the major ethical issues of the day, it just cannot be done. The managerial focus attempts to take a practical look at the social issues and expectations business faces, but ethical questions inevitably come into play. ***Ethics*** basically refers to issues of right, wrong, fairness, and justice, and ***business ethics*** focuses on ethical issues that arise in the commercial realm. Ethical threads run throughout our discussion because questions of right, wrong, fairness, and justice, no matter how slippery they are to deal with, permeate business's activities as it attempts to interact effectively with major stakeholder groups: employees, customers, owners, government, and the community.

The inevitable task of management is not only to deal with the various stakeholder groups in an ethical fashion but also to reconcile the conflicts of interest that occur between the organization and the stakeholder groups. Implicit in this challenge is the ethical dimension present in practically all business decision making where stakeholders are concerned. In addition to the challenge of treating fairly the groups with which business interacts, management faces the equally important task of creating an organizational climate in which all employees make decisions with the interests of the public, as well as those of the organization, in mind. At stake is not only the firm's reputation but also the reputation of the business community in general.

### ***The Stakeholder Management Theme***

As we have indicated throughout this chapter, ***stakeholders*** are individuals or groups with which business interacts who have a "stake," or vested interest, in the firm. They could be called "publics," but this term may imply that they are outside the business sphere and should be dealt with as external players rather than as integral components of the business/society relationship. As a matter of fact, stakeholders actually constitute the most important elements of that broad grouping known as *society*.

We deal with two broad groups of stakeholders in this book. First, we consider *external stakeholders*, which include government, consumers, and community members. We treat government first because it represents the public. It is helpful to understand the role and workings of government in order to best appreciate business's relationships with other groups. Consumers may be business's most important stakeholders. Members of the community are crucial, too, and they are concerned about a variety of issues. One of the most important is the natural environment. Two other major community issues include business giving (or corporate philanthropy) and plant closings (including downsizing). All these issues have direct effects on the community. Social activist groups representing external stakeholders also must be considered to be a part of this classification.

The second broad grouping of stakeholders is composed of *internal stakeholders*. Business owners and employees are the principal groups of internal stakeholders. We

**ETHICS IN PRACTICE****The Boss**

A few years ago, I worked for a health and fitness store in Queens, New York. We sold vitamins, weights, health food, exercise equipment, and clothing. I worked for a manager who showed a tendency to be lazy by always leaving work early. She would leave work early and ask the employees to cover for her if any of the upper managers called.

The manager was in charge of recording the hours we worked and always gave herself 40 hours. Most of the time she worked only about 30 hours a week and often left one of us in charge of the store. My hours were always set, so it did not matter if I stayed later, because I was credited only for the hours on her time sheet. The dilemma here was that she was actually getting paid for time that she was spending away from the store. I was not sure if I was supposed to tell anyone or just look the other way, since she was my boss. I thought that her behavior was wrong, especially for a manager, and that it was very unethical of her to ask us to lie in order to keep her out of trouble.

1. Are there any ethical issues involved in this case? What are they?
2. Should upper management be notified about the manager's actions? Why or why not?
3. What would you do if you were in my place?

*Contributed by Terence O'Brien*

live in an organizational society, and many people think that their roles as employees are just as important as their roles as investors or owners. Both of these groups have legitimate claims on the organization, and management's task is to address their needs and balance these needs against those of the firm and of other stakeholder groups. We will develop the idea of stakeholder management more fully in Chapter 3.

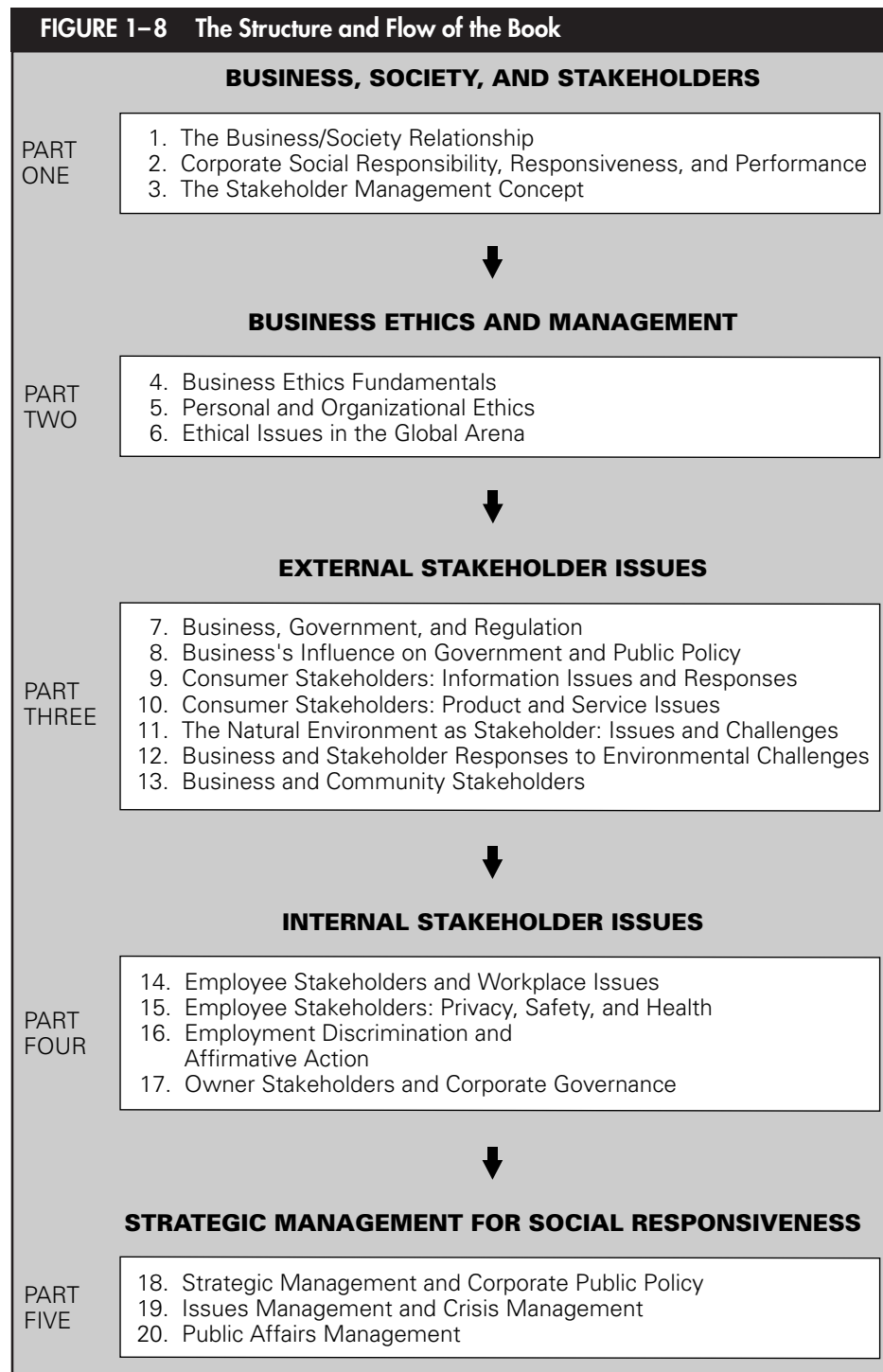
**STRUCTURE OF THE BOOK**

The structure of this book is illustrated in Figure 1–8.

Part 1 provides an overview of the business/society relationship (Chapter 1); corporate social responsibility, responsiveness, and performance (Chapter 2); and the stakeholder management concept (Chapter 3). These chapters provide a crucial basis for understanding all of the discussions that follow. They provide the *context* for the business/society relationship.

Part 2 focuses exclusively on business ethics. Business ethics fundamentals are established in Chapter 4, and the management of business ethics is discussed in Chapter 5. Chapter 6 treats business ethics in the global or international sphere. Although ethical issues cut through and permeate many of the discussions in this book, this special treatment of business ethics is warranted by a need to explore in some detail what is meant by the ethical dimension in management.

Part 3 addresses the major external stakeholders of business. First (in Chapter 7), because government is an active player in all the groups to follow, we consider



business/government relationships and government regulations. Next (in Chapter 8), we discuss how business endeavors to shape and influence public policy. Consumer stakeholders (Chapters 9 and 10), environmental issues (Chapters 11 and 12), and community issues (Chapter 13) are then dealt with in turn.

In Part 4, internal stakeholders, which include employees and owners, are addressed. We first deal with the growing employee rights movement (Chapters 14 and 15) and then focus on the special case of employment discrimination (Chapter 16). Part 4 concludes with a discussion of corporate governance and the management/shareholder relationship (Chapter 17).

In Part 5, we place our managerial and stakeholder perspective within the context of strategic management. We assume a knowledge and an awareness of the issues at this point and focus on the more enduring management responses that are essential to a well-conceived managerial approach. In addition to conceptual materials on strategic management and social issues (Chapter 18), we examine issues management and crisis management (Chapter 19) and public affairs management (Chapter 20). Here we are concerned with generalizable management and organizational response patterns that are proving to be effective in dealing with social issues. Part 5 contains chapters and materials that could easily be covered after Part 1 or Part 2, should an even stronger strategic management perspective be desired.

Taken as a whole, this book strives (1) to take the reader through basic concepts and ideas that are vital to the business/society relationship and (2) to explore the nature of social and ethical issues and stakeholder groups with which management must interact. It considers the external and internal stakeholder groups in some depth and closes with a treatment of management issues and approaches to making the firm more responsive to the full range of societal expectations that are placed on it.

## **SUMMARY**

The pluralistic business system in the United States has several advantages and some disadvantages. Within this context, business firms must deal with a multitude of stakeholders and an increasingly special-interest society. A major force that shapes the public's view of business is the criticism that business receives from a variety of sources. Factors in the social environment that have contributed to an atmosphere in which business criticism thrives include affluence, education, public awareness developed through the media (especially TV), the revolution of rising expectations, a growing entitlement mentality, the rights movement, and a philosophy of victimization. In addition, actual questionable practices on the part of business have made it a natural target. Not all firms are guilty, but the guilty attract negative attention to the entire business community.

A major criticism of business is that it has abused its power. To understand power, you need to recognize that it may operate at four different levels: the entire business system, groups of companies acting in concert, the individual firm, and the individual corporate executive. Moreover, business power may be manifested in several different spheres: economic, political, technological, environmental, social, and individual. It is difficult to assess whether business is actually abusing its power, but it is clear that business has enormous power. Power evokes responsibility, and this is

the central reason that calls for corporate responsiveness have been prevalent in recent years. These concerns have led to a changing social environment for business and a changed social contract.

### KEY TERMS

<b>affluence</b> (page 9)	<b>philosophy of entitlement</b> (page 13)	<b>social environment</b> (page 18)
<b>business</b> (page 3)	<b>pluralism</b> (page 6)	<b>social problem</b> (page 13)
<b>business ethics</b> (page 21)	<b>revolution of rising expectations</b> (page 13)	<b>society</b> (page 4)
<b>ethics</b> (page 21)	<b>rights movement</b> (page 14)	<b>special-interest society</b> (page 8)
<b>Iron Law of Responsibility</b> (page 17)	<b>social contract</b> (page 18)	<b>stakeholders</b> (page 21)

### DISCUSSION QUESTIONS

1. In discussions of business and society, why is there a tendency to focus on large rather than small- or medium-sized firms?
2. What are the one greatest strength and the one greatest weakness of a pluralistic society? Do these characteristics work for or against business?
3. Identify and explain the major factors in the social environment that create an atmosphere in which business criticism takes place and prospers.
4. 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.
5. Explain in your own words 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.

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