

Chapter 1—The Business and Society Relationship

TRUE/FALSE

1. Business can do just about anything it wants because we do not live in a socially conscious environment.

ANS: F PTS: 1 REF: 4
NAT: AACSB Ethics | Ethical Responsibilities

2. The business environment in current times, the first decade of the 21st century, can best be described as turbulent.

ANS: T PTS: 1 REF: 5
NAT: AACSB Analytic | Environmental Influence

3. When speaking of business in the collective sense, the textbook will most often be focusing on *big* business.

ANS: T PTS: 1 REF: 5 NAT: AACSB Analytic

4. Pluralism is a condition in which there is a concentration of power among society's groups and organizations.

ANS: F PTS: 1 REF: 8
NAT: AACSB Analytic | Group Dynamics

5. Stakeholders are the owners of shares in a corporation.

ANS: F PTS: 1 REF: 10
NAT: AACSB Analytic | Environmental Influence

6. Common Cause and the U. S. Chamber of Commerce are examples of general purpose interest groups.

ANS: T PTS: 1 REF: 10
NAT: AACSB Analytic | Environmental Influence

7. Business interacts with only a limited number of stakeholder groups.

ANS: F PTS: 1 REF: 9-10
NAT: AACSB Analytic | Environmental Influence

8. Affluence refers to the level of wealth, disposable income, and standard of living of a society.

ANS: T PTS: 1 REF: 12
NAT: AACSB Analytic | Environmental Influence

9. The authors of the textbook lay the primary responsibility for business's problems on the media.

ANS: F PTS: 1 REF: 15
NAT: AACSB Analytic | Environmental Influence

10. The common perception of business power is that there is too little of it to provide a balance with other social institutions.

ANS: F PTS: 1 REF: 19
NAT: AACSB Analytic | Group Dynamics

11. Power is only manifest when it is used purposefully.

ANS: F PTS: 1 REF: 20-21
NAT: AACSB Analytic | Environmental Influence

12. The social contract is the set of rights and duties imposed on citizens by their government.

ANS: F PTS: 1 REF: 23
NAT: AACSB Analytic | Group Dynamics

13. The social contract in the modern era is changing rapidly and dramatically.

ANS: T PTS: 1 REF: 23
NAT: AACSB Analytic | Group Dynamics

14. Ethics refers to issues of right and wrong, fairness, and justice.

ANS: T PTS: 1 REF: 25
NAT: AACSB Ethics | Ethical Responsibilities

15. The Iron Law of Responsibility states that people who use power wisely will be rewarded with more power.

ANS: F PTS: 1 REF: 22
NAT: AACSB Analytic | Environmental Influence

16. The percentage of the U. S. population that has earned high school diplomas and college degrees has remained about the same over the last thirty years.

ANS: F PTS: 1 REF: 13
NAT: AACSB Analytic | Environmental Influence

17. News shows are the only type of programming on television that has contributed to criticism of business.

ANS: F PTS: 1 REF: 13-15
NAT: AACSB Analytic | Environmental Influence

18. A child's assumption that he or she will have a higher standard of living than the previous generation is called the revolution of rising expectations.

ANS: T PTS: 1 REF: 15
NAT: AACSB Analytic | Individual Dynamics

19. The principal internal stakeholders of a corporation are its customers and employees.

ANS: F PTS: 1 REF: 27
NAT: AACSB Analytic | Environmental Influence

20. Spheres of power describe the arenas in which power may be utilized.

ANS: T PTS: 1 REF: 21
NAT: AACSB Analytic | Environmental Influence

MULTIPLE CHOICE

1. Which of the following is *not* listed as a general issue involving social or ethical ramifications within the relationship between business and society?
- downsizing pension programs
 - toxic waste disposal
 - insider trading
 - death penalties

ANS: D PTS: 1 REF: 4
NAT: AACSB Ethics | Ethical Responsibilities

2. The collection of private, commercially oriented organizations, ranging in size from sole proprietorships to large corporations is referred to as
- the third sector.
 - government.
 - business.
 - the free market economy.

ANS: C PTS: 1 REF: 5
NAT: AACSB Analytic | Environmental Influence

3. Which of the following characteristics of an industry does *not* add to the creation of visible and controversial social problems?
- intense advertising
 - creation of pollution
 - geographic location
 - products that affect health

ANS: C PTS: 1 REF: 6
NAT: AACSB Analytic | Environmental Influence

4. A community, nation, or broad grouping of people having common traditions, values, institutions, and collective activities and interests is a
- society.
 - culture.
 - population.
 - network.

ANS: A PTS: 1 REF: 6
NAT: AACSB Analytic | Environmental Influence

5. A purposeful aggregation of people who represent a common cause or share common beliefs is called a(n)
- special interest group.
 - general interest group.
 - interest group.
 - clique.

ANS: C PTS: 1 REF: 6
NAT: AACSB Analytic | Environmental Influence

6. Segments of business's macroenvironment include all of the following *except*
- the social environment.
 - the natural environment.
 - the economic environment.
 - the political environment.

ANS: B PTS: 1 REF: 7
NAT: AACSB Analytic | Environmental Influence

7. The demographics, lifestyles, and social values of a society determine the firm's
- social environment.
 - economic environment.
 - political environment.
 - technological environment.

ANS: A PTS: 1 REF: 7
NAT: AACSB Analytic | Environmental Influence

8. Gross national product, inflation, interest rates, and unemployment rates are included in a firm's
- social environment.
 - economic environment.
 - political environment.
 - technological environment.

ANS: B PTS: 1 REF: 7
NAT: AACSB Analytic | Environmental Influence

9. The processes by which laws are enacted and government officials are elected are part of the
- social environment.
 - economic environment.
 - political environment.
 - technological environment.

ANS: C PTS: 1 REF: 7
NAT: AACSB Analytic | Legal Responsibilities

10. Technology-based advancements and progress in the applied sciences that help achieve a practical purpose is part of a firm's
- social environment.
 - political environment.
 - economic environment.
 - technological environment.

ANS: D PTS: 1 REF: 7
NAT: AACSB Technology | Information Technologies

11. Decentralization and diversity of power concentrations leads to
- anarchy.
 - a totalitarian society.
 - a pluralistic society.
 - democracy.

ANS: C PTS: 1 REF: 8

12. Strengths of pluralism include all of the following *except*
- pursuit of self-interest.
 - prevention of concentrations of power.
 - a built-in set of checks and balances.
 - maximization of freedom of expression.

ANS: A PTS: 1 REF: 8

NAT: AACSB Analytic | Environmental Influence

13. Which of the following is *not* a weakness of pluralism?
- prevention of concentrations of power
 - pursuit of self-interest
 - overlapping goals, causing confusion about which groups best serve particular interests
 - emphasis on conflict

ANS: A PTS: 1 REF: 8-9

NAT: AACSB Analytic | Environmental Influence

14. The sheer numbers of relationships that business has with other segments of society indicate the _____ of its social environment.
- simplicity
 - size
 - divisiveness
 - complexity

ANS: D PTS: 1 REF: 10

NAT: AACSB Analytic | Environmental Influence

15. Carrying the idea of a pluralistic society to an extreme leads to
- anarchy.
 - totalitarian government.
 - a special-interest society.
 - a free market economy.

ANS: C PTS: 1 REF: 10

NAT: AACSB Analytic | Environmental Influence

16. Because of the sheer number, and specificity of special interest groups, the groups often
- collaborate with each other to achieve common goals.
 - sabotage each other's efforts to attain their goals.
 - work at cross-purposes.
 - collude to see that their common interests are emphasized.

ANS: C PTS: 1 REF: 10

NAT: AACSB Analytic | Environmental Influence

17. Major institutions in a pluralistic, special-interest society will inevitably receive
- praise.
 - special favors.
 - scrutiny and criticism.
 - tax advantages.

ANS: C PTS: 1 REF: 11

NAT: AACSB Analytic | Environmental Influence

18. Which of the following is *not* a factor in the social environment that has lead to the current climate of criticism of business?
- a. affluence and education
 - b. the revolution of rising expectations
 - c. an entitlement mentality
 - d. the Protestant work ethic

ANS: D PTS: 1 REF: 13-17

NAT: AACSB Analytic | Environmental Influence

19. The average level of formal education in the United States is
- a. rising.
 - b. dropping.
 - c. staying about the same.
 - d. unknown.

ANS: A PTS: 1 REF: 13

NAT: AACSB Analytic | Individual Dynamics

20. Television raises our level of awareness about business in all of the following ways *except*
- a. news programs.
 - b. prime-time programs.
 - c. pay-per-view programs.
 - d. commercials.

ANS: C PTS: 1 REF: 13-15

NAT: AACSB Analytic | Environmental Influence

21. The belief that each succeeding generation should have a higher standard of living than its predecessor and that major institutions should continually improve is known as
- a. the revolution of rising expectations.
 - b. the iron cage of rationality.
 - c. the iron law of oligarchy.
 - d. the soft bigotry of low expectations.

ANS: A PTS: 1 REF: 15

NAT: AACSB Analytic | Individual Dynamics

22. A gap between society's expectations of social conditions and the current social realities is recognized as
- a. a social problem.
 - b. distributive justice.
 - c. the revolution of rising expectations.
 - d. inevitable reality.

ANS: A PTS: 1 REF: 16

NAT: AACSB Analytic | Environmental Influence

23. An entitlement mentality is
- a. a necessary outgrowth of the welfare system.
 - b. an outgrowth of the revolution of rising expectations.
 - c. the idea that one has to work for what one gets.
 - d. the idea that each citizen owes something to society.

ANS: B PTS: 1 REF: 16

24. The ____ is a result of the growing numbers of individuals and groups who see themselves as having been victimized by society.
- a. Rights Movement
 - b. Entitlement Mentality
 - c. Revolution of Rising Expectations
 - d. Victimization philosophy

ANS: D PTS: 1 REF: 18

NAT: AACSB Analytic | Individual Dynamics

25. The ability to produce an effect or influence a situation is known as
- a. authority.
 - b. abuse.
 - c. power.
 - d. dictatorship.

ANS: C PTS: 1 REF: 18

NAT: AACSB Analytic | Individual Dynamics

26. The levels of power described by Epstein include all of the following *except*
- a. the macro level.
 - b. the micro level.
 - c. the institutional level.
 - d. the individual level.

ANS: C PTS: 1 REF: 19-20

NAT: AACSB Analytic | Individual Dynamics

27. The macro level of business power resides in
- a. the Federal government.
 - b. the overall corporate system.
 - c. corporate CEOs.
 - d. particular industries.

ANS: B PTS: 1 REF: 19

NAT: AACSB Analytic | Environmental Influence

28. The intermediate level of business power is found in
- a. corporate headquarters.
 - b. the boards of individual corporations.
 - c. groups of corporations acting in concert.
 - d. medium-sized corporations.

ANS: C PTS: 1 REF: 19

NAT: AACSB Analytic | Group Dynamics

29. The business power wielded by an individual firm is known as
- a. macro level power.
 - b. intermediate level power.
 - c. micro level power.
 - d. individual level power.

ANS: C PTS: 1 REF: 20

NAT: AACSB Analytic | Environmental Influence

30. CEOs such as Bill Gates of Microsoft or Carly Fiorina at Hewlett-Packard hold which level of power?
- macro
 - micro
 - individual
 - intermediate

ANS: C PTS: 1 REF: 20
NAT: AACSB Analytic | Individual Dynamics

31. Which of the following is not a sphere of power to which Epstein referred?
- economic
 - technological
 - political
 - intermediate

ANS: D PTS: 1 REF: 19-21
NAT: AACSB Analytic | Environmental Influence

32. The set of two-way understandings that characterize the relationships between major social institutions is called the
- implied contract.
 - unilateral binding accord.
 - social contract.
 - procedural justice agreement.

ANS: C PTS: 1 REF: 23
NAT: AACSB Analytic | Environmental Influence

33. Which of the following is *not* an element of the social contract?
- laws
 - employment contracts
 - regulations
 - shared understandings

ANS: B PTS: 1 REF: 23
NAT: AACSB Analytic | Environmental Influence

34. Stakeholders include all of the following groups *except*
- owners.
 - employees.
 - customers.
 - none of these.

ANS: D PTS: 1 REF: 27
NAT: AACSB Analytic | Environmental Influence

35. An internal stakeholder is a person or group who
- exist outside the boundaries of the firm.
 - is located in the same country in which the firm is located.
 - is defined as an "insider" in laws regulating financial markets.
 - is "inside" the company, such as employees and owners.

ANS: D PTS: 1 REF: 23
NAT: AACSB Analytic | Individual Dynamics

36. The government, consumers, and members of the community are examples of
- stockholders.
 - the technological environment.
 - external stakeholders.
 - primary stakeholders.

ANS: C PTS: 1 REF: 27
NAT: AACSB Analytic | Environmental Influence

37. "In the long run, those who do not use power in a manner which society considers responsible will tend to lose it" is the description of
- The Iron Law of Oligarchy.
 - The Iron Cage of Rationality.
 - The Iron Law of Responsibility.
 - The Peter Principle.

ANS: C PTS: 1 REF: 22
NAT: AACSB Analytic | Environmental Influence

38. The examination of business and its relationship to society typically focuses on
- big business and highly visible industries.
 - all business and all industries.
 - small business and highly visible industries.
 - none of these.

ANS: A PTS: 1 REF: 22
NAT: AACSB Analytic | Environmental Influence

39. The most important stakeholders of a business are typically its
- employees.
 - government.
 - consumers.
 - owners.

ANS: C PTS: 1 REF: 27
NAT: AACSB Analytic | Environmental Influence

40. When a business affects the life of a member of the surrounding community without meaning to, the company has wielded
- coercive power.
 - deliberate power.
 - hidden power.
 - unintentional power.

ANS: D PTS: 1 REF: 21
NAT: AACSB Analytic | Individual Dynamics

SHORT ANSWER

Provide a short answer to each of these questions. Be sure to fully explain your answer.

1. The authors of the textbook say that, at a general level, they will be discussing the role of business in society. What do they mean by "the role of business in society?"

ANS:

The role of business in society refers to the purpose(s) that business has as an integral part of the overall society. The concept of "role" encompasses both the function(s) that business has, such as the production and distribution of goods and service, and the emphasis or power that business has relative to other parts of society, such as government or religion.

PTS: 1 REF: 5
NAT: AACSB Reflective Thinking | Environmental Influence

2. Why does discussion of the institution of business tend to focus on *big* business?

ANS:

When we think of business, we tend to think of the highly visible products and services that are made available by large corporations. They advertise more than do local companies, so people all over the country (or world) are familiar with Coca-Cola, while relatively few have heard of the hair styling salon where you get your hair cut. In addition, people tend to equate size with power, and we pay closer attention to the powerful than we do to those without power (just think of the attention a student pays to the professor or dean, compared to the lack of attention given to a janitor or groundskeeper).

PTS: 1 REF: 5-6 NAT: AACSB Analytic | Environmental Influence

3. Describe the virtues of a pluralistic society.

ANS:

Figure 1-1 lists five virtues of a pluralistic society. These include 1) prevention of concentrations of power, 2) maximization of freedom of expression and action, while striking a balance between monism and anarchy, 3) allegiance of individuals to groups is dispersed, 4) creation of widely diversified set of loyalties to many organizations, and 5) provides a built-in set of checks and balances.

PTS: 1 REF: 8 NAT: AACSB Analytic | Environmental Influence

4. Explain the role that television plays in creating a climate critical of business.

ANS:

Television is, by far, the most pervasive medium through which information is conveyed in our society. Thus, the content of television programming outweighs information provided by all other media. Specifically, television has spotlighted business failings on news programs, it depicts business and executives in a predominantly negative light on prime-time programs, and commercials (purchased by business) tend to exaggerate the benefits of the featured products and services.

PTS: 1 REF: 13-15 NAT: AACSB Analytic | Environmental Influence

5. The authors discuss the rights movement as a contributing factor in the climate that is critical of business. What are "rights?"

ANS:

Rights are the entitlement to certain life chances and freedom from certain limitations that are accorded to persons simply because they have been born and are alive. Rights are not earned by the individual, nor are they given by other parties. There is an ongoing debate about what rights people have (e.g., is access to adequate health care a right or a privilege that one must pay for?), and some rights are more widely recognized than others. For example, the right to freedom of speech is recognized by the government, but the same right may not be recognized in Russia or Iran.

PTS: 1 REF: 17-18 NAT: AACSB Analytic | Individual Dynamics

6. The authors state, "the philosophy of victimization is intimately related to and sometimes inseparable from the rights movement and the entitlement mentality." Explain how these three concepts are related.

ANS:

The rights movement generally seeks to identify and obtain more and more rights for people (or at least a particular group of people). As the general level of affluence and education has risen, people in general have felt entitled to be more free and gain more opportunities. When there is a shortfall between the rights that people expect and what they have, they may feel victimized by others. Key to this process is the general expectation that a person is entitled to more simply because he/she exists, not because he/she has earned it.

PTS: 1

REF: 18

NAT: AACSB Reflective Thinking | Environmental Influence

7. Explain what is meant by spheres of power.

ANS:

The concept of spheres of power recognizes that a person or organization may have different levels of influence in different areas of society. For example, the Pope is widely recognized to have authority and power relative to matters of organized religion. However, his power in the technological environment is largely non-existent. Similarly, the National Collegiate Athletic Association (NCAA) is extremely powerful in the field of intercollegiate athletics, but is not a factor in the ecological concerns.

PTS: 1

REF: 21

NAT: AACSB Reflective Thinking | Environmental Influence

8. Explain the rationale that is the foundation of The Iron Law of Responsibility.

ANS:

The Iron Law of Responsibility states, "In the long run, those who do not use power in a manner which society considers responsible will tend to lose it." This concept is based on the idea of legitimacy, or the proper use of power. If society does not see the use of power as legitimate, the party holding the power will eventually lose that power. An excellent example is the history of Nazi Germany. Nazis rose to power in Germany, but as German society (as well as other countries) saw the abuses of power wielded by Hitler, their legitimacy waned. World War II is ample evidence of the lengths that parties will go to wrest power from those who abuse it. Numerous assassination plots against Hitler also show the internal opposition he engendered.

PTS: 1

REF: 22

NAT: AACSB Reflective Thinking | Group Dynamics

9. Describe what the authors mean by the managerial approach taken in the textbook.

ANS:

Business managers are judged almost exclusively on their ability to accomplish the goals of the organization. For this reason, managers excel at the practical--they are accustomed to dealing with situations in rational and systematic ways. This approach carries over into ethical and social matters as well. In addition, managers must focus on both short-term and long-term implications of their decisions and actions. The textbook will likewise approach issues of business and society from this perspective.

PTS: 1

REF: 24-25

NAT: AACSB Reflective Thinking | Environmental Influence

10. What is the difference between internal and external stakeholders?

ANS:

The primary difference between internal and external stakeholders is their relationship to the firm. Internal stakeholders are considered to be "insiders"--that is, they have a direct impact on the decisions and operations of the firm. Owners and employees are the most widely recognized internal stakeholders. External stakeholders are those parties "outside" the firm--those who may be able to influence the decisions and actions taken inside the organization, but cannot directly implement them. The government, consumers, and community members are primary external stakeholders. For those familiar with the concept of line and staff functions within an organization, internal stakeholders can be thought of as analogous to the line, and external stakeholders as similar to staff functions.

PTS: 1

REF: 27

NAT: AACSB Reflective Thinking | Environmental Influence

ESSAY

Utilize the knowledge you have gained to respond to the following essay questions. Your answers should state your position and use logical arguments and content from this and other chapters in the textbook to support it.

1. The key elements of a pluralistic society are decentralization and diversity of power. Using what you know about American society, do you consider it to be a pluralistic society? Why or why not?

ANS:

Whether students say American society is pluralistic, not pluralistic, or somewhere in between, is of little consequence. The important part of the answer will be in the defense of the position taken. Students who say it is pluralistic should be emphasizing the dispersion of power among various social institutions (e.g., religion, business, education, government, etc.) and specific interest groups such as the National Rifle Association or Common Cause. Students who say American society is not pluralistic should recognize significant concentrations of power among certain groups like the oil industry, the military-industrial complex, or Microsoft. A more sophisticated answer will recognize that there are arguments to be made on both sides of the question, and will cite examples of both in support of their stance.

PTS: 1

REF: 8

NAT: AACSB Reflective Thinking | Individual Dynamics

2. If "rights" are the entitlement to certain life chances and freedom from certain limitations that are accorded to persons simply because they have been born and are alive, what else does the existence of rights imply?

ANS:

Most students will have difficulty answering this question, primarily because society's dominant paradigm focuses solely on rights. But with a little encouragement and direction, students will realize that for every right they possess, a duty or obligation is imposed on everyone else. Thus, if Mary has the right of free speech, Joe (and everyone else) necessarily has the duty not to impinge on Mary's right. A right to life creates a duty not to cause cessation of life. Rights create obligations. The problem comes when one's duty (alternatively, another's rights) interferes with one's rights.

PTS: 1

REF: 17-18

NAT: AACSB Reflective Thinking | Environmental Influence

3. The textbook says that when power gets out of balance, other forces are brought to bear so that balance is restored. Name some of the other forces that are used to balance business power. Describe how effective each of those other forces is in combating business power.

ANS:

John Kenneth Galbraith, one of the most influential economists of the 20th century, termed these other forces countervailing powers. Some of these include the power of unions, government regulation, religious tenets, and societal pressures. Students should describe, with some detail, how the countervailing powers could mitigate business power. However, they should also recognize that business power is, by far, the single strongest current in society today. Unions have been effectively neutralized, business heavily influences government regulation, and religion has suffered a significant decline in its influence.

PTS: 1

REF: 22

NAT: AACSB Reflective Thinking | Environmental Influence

4. Choose a particular corporation and describe the power it wields (this is Epstein's micro level of power) in different spheres.

ANS:

Obviously, each student may pick a different corporation, so generalizing here is impossible. However, as an example, Microsoft has almost complete power in its portion of the technological sphere. With well over 90 percent of the operating system market, Microsoft virtually controls this aspect of computer technology. It also exerts significant political power through campaign contributions and lobbying efforts. The favorable resolution of the anti-trust case against Microsoft after the Bush administration took office is an obvious example of this power. Another major sphere in which Microsoft exerts power (more specifically the Bill and Melinda Gates Foundation) is the health arena. This foundation donates significant amounts of money to research and treatment initiatives.

PTS: 1

REF: 19-21

NAT: AACSB Reflective Thinking | Group Dynamics

5. Using the managerial approach discussed in the textbook, discuss the topic of ecological damage and sustainability as they relate to business.

ANS:

Students' level of knowledge regarding environmental issues will vary widely. At a minimum, they should recognize that business plays a large role in the creation of the pollution that degrades the environment. With this in mind, they should explore potential conflicts between profits and pollution control efforts, the effects that ecological damage has on various stakeholders, and the implications for future quality of life. Students will disagree on the short-term urgency of the environmental question, but most should recognize that there are long-term sustainability issues that must be dealt with at some point. If they are not, the future of the world is in grave peril.

PTS: 1

REF: 24-25

NAT: AACSB Reflective Thinking | Environmental Influence