

THE STUDY OF BUSINESS, GOVERNMENT, AND SOCIETY

LEARNING OBJECTIVES

How the long history of ExxonMobil illustrates the significance of business-government-society relations.

The nature and importance of the business-government-society field.

Four alternative models of the business-government-society relationship.

The theory of capitalism and the historical development of capitalism.

The approach to the field taken throughout the text.

SUMMARIZING OUTLINE

Chapter 1 introduces the subject and describes how it will be treated. It begins with a story about Exxon Mobil Corporation illustrating how business-government-society relationships affect a company.¹ After some discussion of the nature of the field, including definitions of key terms, four models of the business-government-society relationship are presented. Finally, the chapter sets forth certain approaches and assumptions used in the book.

- ❑ The introductory story is about ExxonMobil. It raises central questions about the role of business in society, including when is a corporation socially responsible?
 - ❑ ExxonMobil descends from the Standard Oil trust incorporated in 1882 by John D. Rockefeller.
 - ❑ Standard Oil grew so large and powerful that it was broken apart by the Supreme Court in a 1911 antitrust case. Exxon and Mobil were two companies in the original trust. They were reunited in a 1999 merger.
 - ❑ ExxonMobil's corporate culture still reflects the values of Rockefeller, its founder. It is fiercely competitive, profit-focused, and efficient.
 - ❑ ExxonMobil faces major challenges in complex business, government, and social environments.
 - ❑ In the business environment it is challenged by the rise of state-owned oil companies

¹ As in the textbook, Exxon Mobil is written as two words when followed by the word Corporation, but as one word when the word Corporation is not used. This is the company's preferred usage.

- ❑ With government, it is restricted by laws and regulations in each country in which it does business.
 - ❑ In the social environment it is closely monitored by environmental, human rights, and consumer groups—some of which are actively hostile.
- ❑ What is the business-government-society (BGS) field and what is its importance?
 - ❑ The field is explained as the study of interrelationships among its three elements, each of which is defined. These interrelationships change over time.
 - ❑ **Business** encompasses a broad range of actions, institutions, and operations the purpose of which is to make a profit by providing products and services that satisfy human needs.
 - ❑ **Government** refers to structures and processes in society that authoritatively make and apply policies and rules.
 - ❑ **Society** is a network of human relations including ideas, institutions, and material things.
 - ❑ **Ideas** are intangible objects of thought. Ideas include the following.
 - ❑ **Values**, or enduring beliefs about which fundamental life choices are correct.
 - ❑ **Ideologies**, or bundles of values that create worldviews.
 - ❑ **Institutions** are formal patterns of relationships that link people together to accomplish a goal. A range of institutions is necessary to support markets.
 - ❑ **Material things** are the tangible artifacts of a society.
 - ❑ The BGS field is important to managers, because to succeed they must be responsive to forces in both their economic and noneconomic environments. The history of ExxonMobil illustrates the powerful impact not only of market forces, but of government and social values.
 - ❑ Business must comply with a **social contract**, that is, an imaginary, unwritten agreement between business and society that defines basic duties and responsibilities of business.
- ❑ Four basic models of the BGS relationship are set forth.
 - ❑ The **market capitalism model** depicts the relationship as a set of arrangements in accord with the assumptions of classical capitalism. It is assumed that social responsibility is measured primarily as economic performance that enhances social welfare.

- ❑ To appreciate the basis for the model understanding the nature of capitalism is important.
 - ❑ People have always traded and **markets** are ancient.
 - ❑ **Market economies**, or economies in which people produce mainly for trade, not subsistence, developed in the 1700s.
 - ❑ Adam Smith wrote *The Wealth of Nations* in 1776. It first explained the nature of the market economy, which he called “commercial society.”
 - ❑ The word **capitalism** was only later applied to Smith's work by Karl Marx. Originally a derisive term, it has lost its negative connotation.
 - ❑ By the late 1800s developed economies had evolved from Smith's depiction of innumerable small owner-run businesses into systems of **managerial capitalism** dominated by smaller numbers of large corporations run by hierarchies of salaried managers.
 - ❑ Despite this evolution, the market capitalism model still exists as an ideal against which to measure practice.
 - ❑ Capitalism has been recurrently attacked. The enduring criticisms are these.
 - ❑ It leads to inequalities of wealth and income.
 - ❑ It encourages exploitation of workers.
 - ❑ Capitalist nations engage in imperialism to spread markets.
 - ❑ Markets erode virtue.
 - ❑ Money and material objects get too much emphasis.
 - ❑ Conspiracies and monopoly appear.
 - ❑ It is characterized by environmental pollution and resource exploitation.
- ❑ The **dominance model** represents society as a pyramid. Atop it, business and government dominate. This is the model of business critics. It suggests that business has too much unchecked power.
- ❑ The **countervailing forces model** shows flows of power and influence among environmental factors, the public, government, and corporations. It represents a pluralist vision in which the power of business is checked and controlled.

- ❑ The **stakeholder model** sets the corporation at the center of a set of mutual relationships with persons and groups. It promotes the idea that firms have ethical duties and social responsibilities toward a wide range of stakeholders due to their impacts on them.
 - ❑ **Primary stakeholders** affect or are affected by the corporation immediately, continuously, and powerfully.
 - ❑ **Secondary stakeholders** include a wide range of entities that are less affected by a firm or have less power to affect it.
- ❑ Finally, the main characteristics of analysis in the book are briefly set forth.
 - ❑ A **comprehensive scope** allows coverage of many topics.
 - ❑ An **interdisciplinary approach** includes scholarship from many fields. However, the central focus is the discipline of management.
 - ❑ **Theories** are rudimentary in the field, but where they exist they are discussed. Otherwise, the approach used is **description** of events and discussion of **case studies**.
 - ❑ A **global perspective** is adopted because spread of the global economy makes exclusive focus on the United States too limiting.
 - ❑ **Historical perspective** is added in many chapters to show the action of historical forces, emphasize change, and deepen understanding of current phenomena.