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Management and Society: The External Environment, Social Responsibility, and Ethics

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- LO1 Discuss the nature of pluralistic society and selected environments
- LO2 Outline the social responsibility of managers
- LO3 Explain the nature and importance of ethics in managing
- LO4 Identify ways to institutionalize ethics and factors that raise ethical standards
- LO5 Recognize that some ethical standards vary in different societies
- LO6 Realize that trust is the basis for human interaction

Every time managers plan, they take into account the needs and desires of members of society outside the organization, as well as the needs for material and human resources, technology, and other requirements in the external environment. They do likewise to some degree with almost every other kind of managerial activity.

All managers, whether they operate in a business, a government agency, a church, a charitable foundation, or a university, must, in varying degrees, take into account the elements and forces of their external environment. While they may be able to do little or nothing to change these forces, they have no alternative but to respond to them. They must identify, evaluate, and react to the forces outside the enterprise that may affect its operation. The impact of the external environment on the organization is illustrated in Figure 2.1. The constraining influences of external factors on the enterprise are even more crucial in international management (a fact to be discussed in Chapter 3).

This chapter deals with the impact of the external environment on the organization—with a focus on the technological and ecological environment—and the relationships between business and the society in which it operates. First, the focus is on the nature of the pluralistic society. Then the discussion expands to the topics of social responsibility and ethical behavior.

Learning Objectives

Each chapter begins with learning objectives which outline what each chapter aims at achieving and what the reader should know on its completion.

Margin Notes

These notes in the text margins give an overview of the key points in the chapter. They also aid in reviewing key concepts. Also included in the margins are websites for readers to refer to for further information related to the organization or the topic under discussion.

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strategy. For example, even if the alternative of distributing spirits may appear profitable, executives may decide against such a strategy because of top management's value system that condemns alcoholic beverages.

Mission (Purpose), Major Objectives, and Strategic Intent⁵

Mission: A statement that answers the question "What is our business?"

Strategic intent: The commitment to win in the competitive environment.

www.caterpillar.com
www.xerox.com
www.honda.com
www.ford.com

The *mission*, also sometimes called the purpose, is the answer to the question "What is our business?" The major *objectives* are the end points toward which the activities of the enterprise are directed. These topics were discussed in the previous chapter.

Strategic intent is the commitment to win in the competitive environment. Professors Gary Hamel and C. K. Prahalad analyzed companies that had achieved global leadership.⁵ They found that those firms had an obsession with winning, not only at the top level but also throughout the organization. This obsession is called *strategic intent* and is illustrated by Komatsu's intent to "encircle Caterpillar," its main rival, or Canon's idea to "beat Xerox," or Honda's intent to become an automotive pioneer, "a second Ford." The authors point out that strategic intent requires personal effort and commitment. The intent statement is stable over time and focuses on the essence of winning.

Present and Future External Environment

The present and future external environment must be assessed in terms of threats and opportunities. The evaluation focuses on the competitive situation as well as on economic, social, political, legal, demographic, and geographic factors. In addition, the environment is scanned for technological developments, for products and services on the market, and for other pertinent factors in determining the competitive situation of the enterprise.

Internal Environment⁷

Similarly, the firm's internal environment should be audited and evaluated with respect to its resources and its weaknesses and strengths in research and development, production, operation, procurement, marketing, products, and services. Other internal factors that are important for formulating a strategy should be assessed, including human and financial resources, as well as the company image, organization structure and climate, planning and control system, and relations with customers.

Development of Alternative Strategies

Strategic alternatives are developed on the basis of an analysis of the external and internal environments. An organization may pursue many different kinds of strategies.⁸ It may *specialize* or *concentrate*, as the Korean Hyundai did by producing lower-priced cars (in contrast to General Motors, for example, which has a complete product line ranging from inexpensive to luxury cars). Under the leadership of its chief executive, Chung Mong Koo, the company introduced the competitively priced sport utility vehicle Santa Fe, which was well received by the market.⁹

www.hyundai.com
www.gm.com

Alternatively, a firm may *diversify*, extending the operation into new and profitable markets. Kmart Corporation formed a Specialty Retailing Group that included stores such

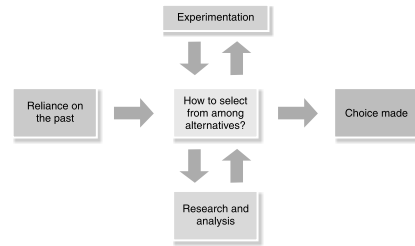
Walkthrough

Table 11.1 Major U.S. Federal Laws Governing Equal Employment Opportunity

Law	Provision
Equal Pay Act (1963)	Equal pay for equal work regardless of sex
Title VII of the Civil Rights Act (1964) (as amended in 1972)	Equal employment opportunity regardless of race, color, religion, sex, and national origin
Age Discrimination in Employment Act (1967) (as amended from ages 65 to 70 in 1978)	Equal employment opportunity for ages 40 to 70
Vocational Rehabilitation Act (1973)	Equal employment opportunity and reasonable affirmative action for handicapped people
Pregnancy Discrimination Act (1978)	Equal employment opportunity during pregnancy
Immigration Reform and Control Act (1986)	Making illegal the hiring, recruitment, or referral of a person known to be an unauthorized alien
Americans with Disabilities Act (1990)	Better access for disabled persons to services and jobs
Older Workers Benefit Protection Act (1990)	Protection for employees over 40 years old with respect to fringe benefits; requirement that employees be given time to consider early-retirement offer
Civil Rights Act (1991)	Allowing women, persons with disabilities, and persons who are religious minorities to a jury trial as well as to suing for punitive damages in certain situations
Family and Medical Leave Act (1993)	Allowing qualified persons to have prolonged unpaid leave for family- and health-related reasons without fear of job loss
Sarbanes-Oxley Act (2002)	Passed partly in response to major corporate and accounting scandals including Enron and Tyco. It requires businesses to provide more disclosure and to adopt higher standards

Figure 6.1

Bases for Selecting from among Alternative Courses of Action



Tables and Figures

The tables give details pertaining to the concepts discussed in the chapter, while the figures illustrate these concepts.

Boxed Items

Boxes containing international, innovation, leadership, ethical and management perspectives illustrate the concepts, principles, and theories presented in each chapter.

INNOVATION PERSPECTIVE

Zipcar²⁰

One example of a company with a blue ocean strategy is Zipcar, a car-sharing company founded in Cambridge, Massachusetts. The company with a concept new in the United States focuses on an uncontested market by using wireless technology at strategically

LEADERSHIP PERSPECTIVE

Transformational Leadership of Mother Teresa⁸

When one thinks of powerful, transformational leaders, most people envision a political or business leader but not an Albania-born Catholic nun ministering to the poor in India. Yet, Mother Teresa, the Nobel Peace Prize winner was introduced to the United Nations

INTERNATIONAL PERSPECTIVE

Organizational Challenges at the TATA Conglomerate³

The Tata Group is India's biggest conglomerate with about 100 companies operating in some 40 businesses. How does such a company organize? For one, there is no central

ETHICAL PERSPECTIVE²¹

The Other Side of the Coin

The lure of money and power can lead to inappropriate and illegal actions. Ivan F. Boesky was accused of insider trading that resulted in huge personal profits—and a \$100 mil-

MANAGEMENT PERSPECTIVE

What People Say about Committees

Disparaging attitudes toward committees are reflected in such sayings as the following:

- "A camel is a horse invented by a committee."

Chapter-end Features

SUMMARY

- International businesses, which extend their operations across national boundaries, are particularly affected by the educational, sociocultural-ethical, political-legal, and economic environments of the host countries. Multinational corporations have developed different orientations for operating in foreign coun-

KEY IDEAS AND CONCEPTS

- ✓ International business
- ✓ Exportation
- ✓ Licensing
- ✓ Management contract

FOR DISCUSSION

1. What advantages do multinational corporations have? What challenges must they meet? Give examples. **LO1**
2. From among the ASEAN countries, identify the one with the largest population and the Gross Domestic Product (GDP). Compare that GDP with that of India. **LO2**

EXERCISE/ACTION STEPS

Interview the managers of a company that is known for excellent products or services. Ask how they achieved the high level of quality.

INTERNET RESEARCH

1. Search the Internet for Geert Hofstede and identify his articles and books. Discuss the cultural characteristics of any three countries.
2. Use the Internet to find out the economic conditions of the Eastern European countries that have been admitted to the European Union. Select one country to discuss in detail.

ENDNOTES

1. David Gauhtier-Villars, "Ghosh Bets Big on Low-Cost Strategy," *The Wall Street Journal*, September 4, 2007; John W. Miller, "Africa's New Car Dealer: China," *The Wall Street Journal*, August 28, 2007.
2. Fortune Global 500, http://money.cnn.com/magazines/fortune/global500/2013/full_list/, accessed March 15, 2014.

Summary: Each chapter concludes with a summary which gives a gist of the chapter. This will be helpful for the reader to have a quick review of the main points of the chapter.

Key Ideas and Concepts: A list of important terms and concepts has been given at the end of each chapter. This will help readers recapitulate what all has been dealt with in the different topics covered.

For Discussion: These are questions which encourage readers to think about and discuss the topics taught in the chapter.

Exercises/Action Steps: These exercises encourage readers to relate the ideas and concepts given in the chapter to the real world.

Internet Research: This part lists out addresses of some websites which will be useful to readers for further knowledge – both broader and in-depth.

Endnotes: A comprehensive list of material for further reading is provided at the end of each chapter, which will help the readers in upgrading their knowledge.

Leadership Case

Could the Challenger Accident Have Been Avoided?¹²

The Challenger space shuttle accident on January 28, 1986, gripped America more than any other event in the last dozen years or so. It was a tragic accident in which seven people died. There is now evidence that the astronauts may have survived the initial explosion and may have died on impact when the space shuttle hit the water. The purpose of recounting the Challenger accident is to briefly explain what happened, possible reasons for why it happened, how it may have been prevented, and what one can learn from it.

Case

Each chapter ends with a case with questions. This case can either be a Leadership case, International Case or Innovation Case. It exemplifies the concepts discussed in the chapter, and its questions help in initiating discussion on the topic.

Walkthrough

Part 2 Closing

Major Principles or Guides for the Managerial Function of Planning

Although a complete set of empirically proven, interrelated principles has not been discovered and codified, experience and observation of managing indicate certain fundamental managerial principles or guides. They not only provide managers with a conceptual scheme but also indicate to scholars areas for research. To be sure, the key abstractions need to be applied with due consideration for the situation – and this is an art. In this closing section, the principles, which perhaps would be more appropriately called guides to management, are organized according to the managerial functions of planning, organizing, staffing, leading, and controlling. In this part closing, the focus is on planning.

Each principle is given a number with a letter that represents the type of managerial function. The letter "P" below indicates that the principle pertains to an aspect of planning.

Major Principles or Guides for Planning

The most essential guiding principles for planning are the following:

The Purpose and Nature of Planning

The purpose and nature of planning may be summarized by reference to the following principles.

- P1. *Principle of contribution to objective.* The purpose of every plan and all supporting plans is to promote the accomplishment of enterprise objectives.
- P2. *Principle of objectives.* If objectives are to be meaningful to people, they must be clear, attainable, and verifiable.
- P3. *Principle of primacy of planning.* Planning logically precedes all other managerial functions.
- P4. *Principle of efficiency of plans.* The efficiency of a plan is measured by the amount it contributes to purpose and objectives offset by the costs required to formulate and operate it and by unsought consequences.

The Structure of Plans

Two major principles dealing with the structure of plans can go far in tying plans together, making supporting plans contribute to major plans and ensuring that plans in one department harmonize with those in another.

- P5. *Principle of planning premises.* The more thoroughly individuals charged with planning understand and agree to utilize consistent planning premises, the more coordinated enterprise planning will be.
- P6. *Principle of the strategy and policy framework.* The more strategies and policies are clearly understood and implemented in practice, the more consistent and effective will be the framework of enterprise plans.

Part Closing

Managerial knowledge classified according to the functions of planning, organizing, staffing, leading and controlling are respectively emphasized upon in each of the part's closing. Each of the closings highlight the purpose, reason, structure and process of the emphasized function.

Index

A comprehensive name index, product and organization index and subject index will aid the readers in locating the entries in the text accurately and easily.

Name Index

Pxxx Page numbers prefaced by the alphabet "P" indicates that the corresponding entry appears in a Perspective.
Fxxx Page numbers prefaced by the alphabet "F" indicates that the corresponding entry appears in a Figure.
Txxx Page numbers prefaced by the alphabet "T" indicates that the corresponding entry appears in a Table.
Cxxx Page numbers prefaced by the alphabet "C" indicates that the corresponding entry appears in a Case.

Product and Organization Index

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Subject Index

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