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A THEORY OF CORPORATE RESPONSE TO THE SOCIAL ENVIRONMENT

by

John Samuel Magle, III

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The Graduate College of the University of Nebraska
In Partial Fulfillment of Requirements
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Business Area

Under the Supervision of Professor Phillip McVey

Lincoln, Nebraska

May, 1979

PREVIEW

TITLE

A THEORY OF CORPORATE RESPONSE

TO THE SOCIAL ENVIRONMENT

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IN MEMORIAM

This report is dedicated to my father,

John S. Wagle, Jr. Ph.D.

1918 - 1978

Though he did not live to see its completion
he guided me in it as in everything
and always will.

PREVIEW

ACKNOWLEDGEMENTS

Phillip McVey was my academic adviser and chairman throughout my doctoral program. Because he was, both my program and this report are significantly better than they otherwise would be. Meeting his standards was a task that was challenging, difficult, frustrating, - - and infinitely rewarding.

William W. Curtis, Keith Broman, and Robert Brown were my readers and were on my committee. Each provided insight, knowledge, and patience at the right time and in the right quantity.

Few graduate students are fortunate enough to have a single committee member whose judgment, ability, maturity, and intellectual attainments can be trusted one hundred per cent of the time. I had four of them. Many thanks, my friends.

To my wife Sandy, my daughter Jennifer, and my mother Clarella go my great gratitude for their endless patience and love. While it will be impossible to fully repay them, I have no doubt they will see to it that I try to do so.

CHAPTER I

PROBLEM DEFINITION

During the two decades beginning in 1960 a phenomena that in its greatest intensity could have serious consequences for the American system of capitalism has influenced almost every element of American society. This phenomena has appeared in many guises and manifested itself under many names but in every case distills into fundamental questions concerning the proper social and economic role of American business as it should relate to American society.

Academicians, government officials, consumer advocates, minority leaders, business executives, and the individual consumer and taxpayer have wrestled with the issues and have come to conclusions that are often widely inconsistent with themselves and contradictory to one another. Even those individuals who must be considered advocates of business can not come to a philosophical agreement -- let alone an agreement of practical dimensions:

"The social responsibility of business is to increase its profits."

Milton Friedman

"It is the duty of the man of wealth to consider all surplus revenues...as trust funds, which he is called upon to administer...for his poorer brethren...doing for them better than they would or could do for themselves."

Andrew Carnegi

"The duty of business in a democracy is...to follow the social obligations which are defined by the whole community..."

Howard Bowen

Yet while the philosophical debate continues businesses large and small are confronted with issues which must somehow be answered:

"Small, medium, and large corporations today are operating under a totally different set of public expectations, guidelines, and laws than they were 20 years ago. New codes of ethics and corporate structures are taking form while social audits are becoming an accepted part of large corporations' planning and control functions. Consumerism is continuously on the minds of our managers while large corporations score an all-time low in public opinion polls. Criticism of business corruption, pollution, and their impact on the quality of life are now major concerns confronting management at all levels. The rules, regulations, and game plans by which American managers must operate today are dramatically changed from the bottom line management philosophy of even a decade ago."¹

According to George Bach:

"Whether we like it or not, I suspect the next 25 years are going to be tough and rugged ones for the market system, for profits. We simply kid ourselves if we think we can walk away from the challenges, especially the last one, and that everything will come out all right because somebody else will do something about them."²

¹"The Future of Management Education and the Role of the American Assembly of Collegiate Schools of Business: A Report of the AACSB Educational Innovation Committee." as cited by George A. Steiner, ed. Business and Its Environment, Graduate School of Management, UCLA, March 1977, pg. 12.

²George L. Bach, "Whither Education for Business: 1950-2000?", AACSB Bulletin, Vol. 11, No. 4, 1975, pg. 13.

PROBLEM DEFINITION

Business has not, to date, found a satisfactory solution to the problem of environmental social pressure. For example, in 1978 the Ford Motor Company was indicted for murder in a grand jury investigation of Pinto gasoline tanks, the Firestone Tire and Rubber Company was forced by the government to recall 100% of all Firestone 500 steelbelted radial tires manufactured after 1975 and pay half the replacement costs of those manufactured before 1975, and the Federal Trade Commission issued cease and desist orders to Encyclopedia Americana, Encyclopedia Britannica, and other encyclopedia companies charging fraud and misrepresentation in the sale of products and in the procurement of sales representatives. This list is far from exhaustive. Regardless of where the fault lies, the point is that the range and intensity of social issues facing business at all levels coupled with the growing harshness of the penalties imposed upon business clearly indicates that no satisfactory solution to problems of business and environment has been found.

Based upon the definition of theory provided later in Chapter One, there is a reasonable body of theory which exists concerning business and its relationship to society in a normative sense. Many authors have proposed theories of how business and society should interrelate. However, no theories exist that are positive in nature (that is, explain how business and society actually interrelate) and none of the theories are backed by empirical evidence. The research problem that will be investigated is: Can a theory of business and

its relationship to society be developed which has both normative and positive dimensions and is backed by empirical evidence? If the study is successful, then the theory and evidence together will provide a methodology by which managers of business, government, and social groups may collect data about, define, and investigate specific issues of business and society that face them.

THE IMPORTANCE OF THE PROBLEM TO MARKETING

While it is clear from the previous quotations that both society and the business sector consider business and society relationships to be of great significance, this study is a marketing approach to the problem. That is, the study applies marketing tools, techniques, theory, and philosophy to the problem of corporate social response to social issues of business and its environment. The study is not just an examination of marketing variables related to the problem but is an application of marketing to the problem. As such, it is appropriate to demonstrate that marketing as a discipline has become concerned with business and society relationships.

William Lazer argues that the goals and responsibilities of marketing are far greater than economic alone:

"Marketing is not an end in itself. It is not the exclusive province of business management. Marketing must serve not only business but also the goals of society ...One of the next marketing frontiers may well be related to markets that extend beyond mere profit considerations - to markets of mind, and markets concerned with the devel-

opment of people to the fullest of their capabilities."³

Lavidge lists marketing social responsibilities to include:

- "1. Consumerism
2. The struggle of the poor for subsistence.
3. The marketing of social and cultural services.
4. The day-to-day functioning of the economy.
5. The use and pollution of society's resources,"⁴

According to Lazer:

"Such issues carrying marketing activities well beyond the usual bounds of marketing management action...It will be a counterpart of managerial marketing in the unfolding body of marketing knowledge."⁵

These statements are an indication that students of marketing should direct their attention to issues arising from the social environment. The theory to be presented in this report will be a part of the body of marketing theory and the fact that it is marketing theory will provide some limitations to both the theory and the study. While any manager can make use of the positive aspects of the theory, one of the goals of the normative section of the theory is to better define and limit the social role of the marketing manager.

³William Lazer and Eugene Kelley, Social Marketing, Irwin, Homewood, 1973, pp. 12 - 14.

⁴Lazer and Kelley, Social Marketing, pp. 25 - 31.

⁵Lazer and Kelley, Social Marketing, pp. 51 - 52.

CONCEPTUAL DEFINITIONS

In order to clarify terms that are used throughout the report some definitions are necessary. These include:

Theory - "A theory is a set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of phenomena by specifying relations among variables with the purpose of explaining and predicting the phenomena."⁶

Philosophy - "The critical study of the basic principles and concepts of a particular branch of knowledge, esp. with a view to improving or reconstituting them: the philosophy of science."⁷

In examining the literature concerning business and the social environment it is often difficult to tell whether the author of the ideas offered is proposing a theory, a philosophy, or both. The exact demarcation between theory and philosophy is somewhat unclear. In Chapters Two and Three these terms are both used and the term selected is based upon which term seems most appropriate at the time.

Scientific Research - "...is systematic, controlled, empirical, and critical investigation of hypothetical propositions about the presumed relations among natural phenomena."⁸

⁶Fred N. Kerlinger, Foundations of Behavioral Research, 2nd. ed., Holt, Rinehart, and Winston, New York, 1964, pg. 9.

⁷The Random House Dictionary of the English Language, The Unabridged Edition, 1967, s.v. "philomel".

⁸Kerlinger, Foundations, pg. 11.

A major purpose of the study is to investigate the possibility that a theory of business and its social environment can be constructed and tested based upon scientific research.

Business and environment - (or business and society) a total inclusive term that shall be used to encompass the range of all issues of the social environment as they relate to business.

Corporate social responsibility - the proper role of business in society. The meaning of the word "proper" varies greatly from author to author. Corporate social responsibility is often used to indicate a philosophy or theory about the "proper" role of business in society. Often the course of action taken by managers of business or government when faced by a social issue implies the philosophy the manager is using.

Corporate social response - the actual set of actions taken by a firm or industry in order to lessen or alter the impact of a business related social issue that impinges upon the firm, industry, or a governmental body or agency.

Social issue - a situation in the social environment that has elements of a partly noneconomic nature and impinges upon a firm, industry, economic system, or governmental body in such a way as to have unfavorable implications for the business enterprise in terms of public censure, social pressure, or government intervention, or all three. Also: a problem in the social fabric of a society that has been partly caused by business or that business may be held responsible for or business may be called upon to solve. Social issues may impact at any level of the economic system.

Popular mass media - magazines, newspapers, and other publications that represent or influence the attitudes, views, or beliefs of either the American public in general or special interest groups. (See Chapter Three.)

Micro level - refers to the individual firm or individual firms.

Industry level - refers to groups of firms that are grouped together because of the economic function(s) that they perform.

Macro level - refers to the entire economic system or structure of the entire economic system.

In addition other definitions will appear in the literature review and the research design chapter as needed.

EVIDENCE THAT ACCESSIBLE KNOWLEDGE AND DATA SOURCES EXIST

Scientific research on business and society issues can almost be said to not exist. "Research" on the topic can be divided into two categories. The first category consists of philosophical or normative discussions of the role of the firm in the environment and is not empirical in nature. This category includes the vast majority of the research to date. The second category is limited to some statistical tests concerning specific issues of business and environment. For example, some statistical tests exist that deal with the view of corporate managers as to the role the firm should play in society. In addition, empirical data collection has been conducted on the topics of unit pricing, corrective advertising, and other specific issues of a like nature.

The first category will serve to provide this study with its philosophical framework. This framework is necessary, even though not empirically testable, because most of the academicians who have worked in the area have provided nothing but a philosophical frame. As a result they will be unlikely to consider a theory that does not include this type of a background format. From the normative philosophy of the report will come a positive theory and from that theory will come a set of testable hypotheses.

The second category of research, while interesting, provides little or no guidance for this investigation. The issues studied are too limited to be of value in theory building.

Because there is such a large empirical gap in the research on business and environment two questions are pertinent. First, why does this gap exist? Second, can the gap be filled?

The research gap exists for three fundamental reasons. The first two of these reasons are a result of the procedures of the "traditional" school of thought within the science of economics. For centuries this school of thought has assumed that theory can be generated and tested by philosophical debate. When empirical data are collected it is for the purpose of measuring variables assumed to be valuable by the theory. Data are not collected with the purpose of testing the theory itself. The second reason is that other areas of business science concerned with business and society have either left these issues to economics or have been content to use the same procedures when studying them. The third reason is that the cause and effect relationships in business and society issues are almost impossible to measure or prove. Although statistical techniques are available to test cause and effect the requirements of the techniques would force the researcher to attempt to manipulate variables that are clearly impossible to manipulate such as the war in Viet Nam, the civil rights movement, and others.

The question therefore becomes, is there accessible data already in existence which can be obtained and which can support the

relations to be proposed in the research design? Fortunately the answer is "Yes".

Generally it can be assumed that a series of events and conditions in the social environment, most of which exist at the macro level, cause the public to become concerned about specific issues of corporate social responsibility. As the degree of public concern mounts individual issues become more important and lead to pressure for action by the government. Therefore the degree of public concern is a fundamental link between the causes, the issues, and the actions of the government to treat an issue. Regardless of the causes of a business and society issue a degree of public concern will normally exist before governmental action will take place. Even if the causes of an issue cannot be determined and measured the degree of public concern and its relationship to governmental action can be measured.

Degree of public concern will inevitably be represented by the popular mass media in the United States. The popular media may reflect the degree of public concern or, by informing the populace of the issue, may actually cause a degree of public concern. In either case it represents the degree of public concern about an issue.

Therefore the degree of public concern about an issue of business and environment may be measured as a variable by evaluating articles in the popular mass media regardless of the macro causes of the issue.

The measurement task can be accomplished by a research

technique known as content analysis. Content analysis is a systematic data collection methodology that has been used in research which measures the content of mass media sources for purposes of scientific research. Content analysis may be defined as a scientific study of mass media communications with the goal of determining or measuring trends, beliefs, sources, values, concerns, styles, and underlying meaning that occurs within mass communications in such a way as to allow a researcher to scientifically quantify and test hypotheses about the communications and their implications.

"The content analyst aims at a quantitative classification of a given body of content, in terms of a system of categories designed to yield data relevant to specific hypotheses concerning the content."⁹

"Content analysis is a research technique for the objective, systematic, and quantitative description of the manifest content of communications."¹⁰

By using the technique of content analysis the researcher can evaluate and measure the degree of public concern (and other variables) about an issue of business and environment, its change over time, and the resultant actions on the part of either government or the corporation.

⁹Abraham Kaplan and Joseph Goldsen, Chapter 5, pg. 83, in Lasswell and Leites, eds. Language of Politics, Steward, 1949.

¹⁰Bernard Berelson, Content Analysis in Communication Research, Hafner Publishing Company, New York, 1971, pg. 18.

The procedure used in content analysis may vary from study to study but generally can be described as a six stage process. First, the researcher creates or selects a theory concerning his topic, defines the variables of importance to the theory, and demonstrates how those variables relate to the theory. Second, the researcher provides a methodology by which relevant communications can be selected and measured in the study. Third, the researcher operationally defines the variables in terms of communications content and presents the relationships and hypotheses proposed for those variables. Fourth, the researcher samples and measures the communications based upon the methodology and the operational definitions. Fifth, the researcher tests the hypotheses. Sixth, the researcher evaluates the results of the study for implications to the original theory.

In this study a theory of corporate social response will be developed and the content analysis research procedure will be applied in order to test the hypotheses developed from the theory. The data collection will be random samples of popular mass media vehicles and some government documents.

IDENTITY OF PERSONS OR GROUPS INTERESTED IN THE RESULTS

This report is designed for two general groups of readers: business academicians and business managers. Business academicians will find the results of the study useful because it will provide them with a theory of corporate response to the social environment based upon scientific research. At the same time business managers will be presented with a technique that will allow their own firm or