Seventh Edition

BUSINESS AND ITS ENVIRONMENT

David P. Baron

Stanford University



Boston Columbus Indianapolis New York San Francisco Upper Saddle River Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montreal Toronto Delhi Mexico City São Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo

BRIEF CONTENTS

PART I Strategy and the Nonmarket Environment 1

Chapter 2 Integrated Strategy 30

Chapter 1 Market and Nonmarket Environments 1

Chapter 3 The News Media and Nonmarket Issues 52Chapter 4 Private Politics and Social Pressure 74

| | Chapter 5 | Crisis Management 102 | | | |
|---------------------------------------|--|---|--|--|--|
| PART II | Public Po | c Politics and Nonmarket Strategy 132 | | | |
| | Chapter 6 | Nonmarket Analysis for Business 132 | | | |
| | Chapter 7 | Nonmarket Strategies for Government Arenas 162 | | | |
| | Chapter 8 | Implementing Nonmarket Strategies in Government Arenas 195 | | | |
| PART III | Government and Markets 230 | | | | |
| | Chapter 9 | Antitrust: Economics, Law, and Politics 230 | | | |
| | Chapter 10 | Regulation: Law, Economics, and Politics 264 | | | |
| | Chapter 11 | Financial Markets and Their Regulation 291 | | | |
| | Chapter 12 | Environmental Management and Sustainability 321 | | | |
| | Chapter 13 | The Investor's Perspective: Renewable Energy 358 | | | |
| | Chapter 14 | Law and Markets 380 | | | |
| PART IV Global Nonmarket Strategy 417 | | | | | |
| | Chapter 15 | The Political Economy of the European Union 417 | | | |
| | Chapter 16 | China: History, Culture, and Political Economy 448 | | | |
| | Chapter 17 | Emerging Markets 477 | | | |
| | Chapter 18 | The Political Economy of India 502 | | | |
| | Chapter 19 | The Political Economy of International Trade Policy 519 | | | |
| PART V | Ethics and Corporate Social Responsibility 557 | | | | |
| | Chapter 20 | Corporate Social Responsibility 557 | | | |
| | Chapter 21 | Ethics Systems: Utilitarianism 594 | | | |
| | Chapter 22 | Ethics Systems: Rights and Justice 622 | | | |
| | Chapter 23 | Behavioral Ethics, Individuals, and Management 659 | | | |
| | Chapter 24 | Ethics in International Business 681 | | | |
| | | | | | |

CONTENTS

List of Cases xxiii
Preface xxvii
About the Author xxxi

Part I Strategy and the Nonmarket Environment 1

Chapter 1 MARKET AND NONMARKET ENVIRONMENTS 1

Introduction 1

The Environment of Business 2

The Role of Management 3

Market and Nonmarket Environments 3

Analysis of the Nonmarket Environment: The Four I's 4

The Nonmarket Environment of the Automobile Industry 5

Issues 5

Interests 9

Institutions 9

Information 10

Change in the Nonmarket Environment 11

Anticipating Change in the Nonmarket Environment 13

■ EXAMPLE: Graduation Cards 13

The Nonmarket Issue Life Cycle 14

Summary 15

Cases 16

The Nonmarket Environment of the Pharmaceutical Industry 16

The Nonmarket Environment of McDonald's 19

The Nonmarket Environment of Google 23

Chapter 2 INTEGRATED STRATEGY 30

Introduction 30

Strategy in the Nonmarket Environment 31

The Importance of Nonmarket Strategy 31

Competition and Change in the Nonmarket Environment 32

Strategy and the Nonmarket Issue Life Cycle 32

Strategies and Borders 33

Integrated Strategy 34

- **EXAMPLE:** Google and the Spectrum Auction 34
- EXAMPLE: Direct-to-Consumer Advertising and Integrated Strategy in the Pharmaceutical Industry 36

Approaches to Integrating Market and Nonmarket Strategies 37

Nonmarket Positioning 38

■ EXAMPLE: eBay's Positioning in Legal Space 38

Nonmarket Positioning and Market Strategies 39

Positioning Spaces 41

The Perils of Positioning 42

Nonmarket Capabilities and Reputation 42

| | A Framework for the Analysis of Nonmarket Issues 43 EXAMPLE: Citibank and Credit Cards for Undergraduates 45 | | | | |
|-----------|---|--|--|--|--|
| | Organization of the Nonmarket Strategy Function 46 | | | | |
| | Summary 46 | | | | |
| | Cases 47 | | | | |
| | Facebook in China? 47 | | | | |
| | Personal Watercraft, aka Jet Skis 49 | | | | |
| Chapter 3 | THE NEWS MEDIA AND NONMARKET ISSUES | | | | |
| | Introduction 52 | | | | |
| | The Role of the News Media in Nonmarket Issues 52 | | | | |
| | Messages and Their Interpretation 54 | | | | |
| | A Theory of News Media Coverage and Treatment 54 | | | | |
| | Intrinsic Audience Interest 55 | | | | |
| | Societal Significance 55 | | | | |
| | Combining the Perspectives 56 | | | | |
| | Extending the Theory 57 | | | | |
| | Newsworthiness 57 | | | | |
| | The Cost of Coverage 58 | | | | |
| | Balance and Fairness 58 | | | | |
| | The Nature of the News Media 59 | | | | |
| | News Organizations as Businesses 59 | | | | |
| | The Profession 59 | | | | |
| | Does the News Media Treat Issues Selectively? 60 | | | | |
| | Bias, Accuracy, and Fairness 60 | | | | |
| | The Internet and Citizen Journalism 62 | | | | |
| | Business Interactions with the News Media 62 | | | | |
| | The Need for Information 62 | | | | |
| | Media Strategies 63 | | | | |
| | Responses and Media Vacuums 63 | | | | |
| | Media Interviews 64 | | | | |
| | Anticipating Issues 64 | | | | |
| | Unanticipated Events 65 | | | | |
| | Recourse in Disputes with the Media 65 | | | | |
| | Private Recourse 65 | | | | |
| | Recourse to the Law: Defamation and Libel 66 | | | | |
| | ■ EXAMPLE: Procter & Gamble and Neighbor to Neighbor 66 | | | | |
| | Political Recourse 68 | | | | |
| | Summary 69 | | | | |
| | Cases 69 | | | | |

52

Chapter 4 PRIVATE POLITICS AND SOCIAL PRESSURE 74

General Motors: Like a Rock? (A) 69

The News of the World 72

Introduction 74

Private Politics and the Nonmarket Environment 75 The Evolution of Private Politics 76

ix

Confrontational Private Politics 78

■ EXAMPLE: Pizza Hut and Health Insurance Reform 79

Cooperative Private Politics 81

Synergies between Confrontational and Cooperative Private Politics 83

■ EXAMPLE: TXU and the Leveraged Buyout 83

Moderates and Radicals 84

Activist Strategies 84

Advocacy Science 85

Target Selection 86

A Generic Strategy of Activists 86

Strategies for Adressing Social Pressure 87

Assessment 87

Strategy and Negotiations 88

■ EXAMPLE: Negotiating with Activists: On Bank 90

Challenging the Activists 90

Summary 91

Cases 92

Shell, Greenpeace, and Brent Spar 92

Nike in Southeast Asia 95

Anatomy of a Corporate Campaign: Rainforest Action Network and Citigroup (A) 97

Anatomy of a Corporate Campaign: Rainforest Action Network and Citigroup (B) 100

Chapter 5 CRISIS MANAGEMENT 102

Introduction 102

The Nature and Causes of Crises 102

The Pattern of Crisis Development 103

■ EXAMPLE: PepsiCo and the Syringe Episode 105

Components of a Crisis Management Program 107

Avoidance 108

Preparedness 108

Root Cause Analysis 110

Response 111

Resolution 114

Summary 115

Cases 116

Mattel: Crisis Management or Management Crisis 116 Johnson & Johnson and Its Quality Reputation 120

Part I Integrative Case: Wal-Mart: Nonmarket Pressure and Reputation Risk (A) 124

Part II Public Politics and Nonmarket Strategy 132

Chapter 6 NONMARKET ANALYSIS FOR BUSINESS 132

Introduction 132

A Framework for the Analysis of Nonmarket Action in Public Politics 133

Interests and Interest Groups 133 The Amount of Nonmarket Action 134 The Demand for Nonmarket Action 134 The Costs and Effectiveness of Nonmarket Action 135 The Distributive Politics Spreadsheet 136 The Nature of Political Competition 137 Institutions and Institutional Officeholders 139 **■ EXAMPLE:** Internet Wine Sales 139 Moral Determinants of Collective Action 140 Boeing in a Pickle 140 Analysis of Boeing in a Pickle 142 The Nonmarket Issue 142 Distributive Consequences 142 Boeing's Nonmarket Agenda and Objectives 144 The Nature of the Politics 144 Interests and the Demand for Nonmarket Action 144 The Supply Side 145 The Distributive Politics Spreadsheet 146 Institutions and Institutional Officeholders 146 Nonmarket Strategy Formulation 146 The Outcome 148 Summary 149 Appendix A: Nonmarket Action and the Free-Rider Problem 150 Appendix B: The Organization of Congress 152 Cases 157 Tobacco Politics 157 Business versus Business 158 Repeal of the Luxury Tax 160

Chapter 7 NONMARKET STRATEGIES FOR GOVERNMENT ARENAS 162

Introduction 162

Responsible Nonmarket Action 162

Criticisms of Business Nonmarket Action 163

Nonmarket Strategy Formulation 166

Managers and Nonmarket Strategies 166

Implementation 170

Understanding Outcomes 171

Generic Nonmarket Strategies 172

Representation Strategies 172

■ EXAMPLE: Toshiba and Trade Sanctions 172

Majority-Building Strategies 174

Informational Strategies 178

Public Officeholders as Targets of Nonmarket Strategies 179

■ EXAMPLE: China and Most Favored Nation Status 179

Institutions, Interests, and Strategy Choice 180

Institutions and Responsiveness 180

Interests: Client and Interest Group Politics 181

Summary 182

Appendix A: Condorcet's Paradox and Arrow's Impossibility

Theorem 183

Appendix B: The Politics of the Extension of Daylight

Saving Time 184

Cases 188

Federal Express and Labor Organization 188

Carried Interest Taxation 189

Wal-Mart and Health Care Policy 192

Chapter 8 IMPLEMENTING NONMARKET STRATEGIES IN GOVERNMENT ARENAS 195

Introduction 195

Lobbying 195

The Nature of Lobbying 196

Technical and Political Information 197

Credibility and Relevance of Information 198

Access 199

Bargaining 199

Timing and Focus 200

Government Allies 200

Controls on Lobbying 200

■ EXAMPLE: Michelle Obama and Wal-Mart 201

Electoral Support 202

Myths and Realities of Campaign Financing 202

Election Financing Laws 202

The Pattern of Campaign Contributions 204

Purposes of Campaign Contributions 204

Coalition Building 205

Peak Associations 205

Trade Associations 206

Ad Hoc Coalitions 206

Coalitions and Consensus 206

■ EXAMPLE: Pharmaceutical Politics 207

Grassroots and Constituency Campaigns 208

Mobilization 208

Business Grassroots Campaigns 208

The Effectiveness of Grassroots Programs 209

Testimony 209

Public Advocacy 210

Judicial Actions 211

Organizing for Nonmarket Effectiveness 212

Developing Nonmarket Capabilities 212

Summary 213

Cases 214

Internet Taxation 214

Wal-Mart and Its Urban Expansion Strategy 218

Responsible Lobbying? 220

Part III Government and Markets 230

Chapter 9 ANTITRUST: ECONOMICS, LAW, AND POLITICS 230

Introduction 230

Antitrust Law 231

The Antitrust Statutes 231

■ EXAMPLE: Monopoly 233

Exemptions 233

Enforcement of the Antitrust Laws 235

Government Enforcement 235

Private Enforcement 237

Per Se Violations and the Rule of Reason 238

Antitrust Thought 238

The Structural Approach 239

The Chicago School 241

The New IO Approach 243

Examples of the Differences in Antitrust Thought 244

Vertical Arrangements 244

Predatory Pricing and Entry Deterrence 246

Collusion and Price Fixing 247

Mergers and Merger Guidelines 248

Compliance 250

The Politics of Antitrust 250

Summary 251

Cases 252

Price Fixing in the Airways 252

The AT&T and T-Mobile Merger? 253

The Microsoft Antitrust Case 257

Chapter 10 REGULATION: LAW, ECONOMICS, AND POLITICS 264

Introduction 264

Periods of Regulatory Change 265

The Constitutional Basis for Regulation 266

Regulatory Commissions and Agencies 266

Delegation, Rule Making, Due Process, and Discretion 267

The Nonmarket Environment of Regulatory Agencies 269

■ EXAMPLE: Regulatory Rule Making in the Bush Administration 270

Explanations for Regulation 271

Market Imperfections 271

Natural Monopoly 271

Externalities 272

Public Goods 273

Asymmetric Information 274

Moral Hazard 274

Allocating Public Resources 276

Government Imperfections 276

The Political Economy of Regulation 276

Capture and Rent-Seeking Theories 276

Fairness 277

Other Public Purposes: Media Ownership Rules 278

Preemption 278

A Political Economy Theory of Regulation 278

■ EXAMPLE: The Political Economy of Regulation: ATVs 279

Redistribution and Cross-Subsidization 280

Accomplishing Through Regulation What Cannot Be Accomplished

Through Legislation 281

Cost-of-Service Regulation 283

Deregulation 283

Electric Power 283

Auctions 285

Summary 285

Cases 286

Merck and Vioxx 286

Pfizer and Celebrex 288

Enron Power Marketing, Inc., and the California Market 289

Chapter 11 FINANCIAL MARKETS AND THEIR REGULATION 291

Introduction 291

The Formal and Informal (Shadow) Banking Systems 291

The U.S. Regulatory Structure 295

The Federal Reserve System 295

Securities Regulation 295

Credit Card Regulation 296

The Financial Crisis, 2007–2009 296

Mortgage Lending and Subprime Mortgages 296

Financial Crisis Inquiry Commission 298

Causes 299

TARP, Bailouts, and the Stimulus 300

Fannie Mae and Freddie Mac 301

The Dodd-Frank Wall Street Reform and Consumer

Protection Act 301

Financial Stability Oversight Council 302

Too Big to Fail 302

The Volcker Rule 302

Derivatives and Swaps 303

Securitization and Excessive Risks 303

Consumer Protection 303

- **EXAMPLE:** Constituency Power 304
- EXAMPLE: Anticipated Consequences—Credit Availability 304

Compensation 305

Credit Rating Agencies 306

■ EXAMPLE: Unanticipated Consequences—Experts 306

Global Capital Requirements Regulation—Basel III 307

Summary 308

Cases 308

Goldman Sachs and Its Reputation 308

Credit Rating Agencies 314

Citigroup and Subprime Lending 318

Chapter 12 ENVIRONMENTAL MANAGEMENT AND SUSTAINABILITY 321

| ı | 10+100 | uction | 321 |
|---|--------|--------|---------|
| 1 | miroa | ucuor | 1 .52 [|

The Environment and Sustainability 321

Goals and Actions 321

Global Climate Change 322

Policy 322

Tradeoffs 323

Socially Efficient Control of Externalities 324

The Coase Theorem 324

■ EXAMPLE: The Coase Theorem 325

Transactions Costs and the Limits of the Coase Theorem 327

Cap-and-Trade Systems 327

Cap-and-Trade Systems to Address Acid Rain 328

Tradable Permits for Sulfur Dioxide and

Nitrogen Oxides 329

Global Climate Change and Emissions Trading Systems 330

Kyoto Protocol 331

Emissions Trading in the European Union 332

The Regional Greenhouse Gas Initiative (RGGI) 332

Emissions Trading Within BP plc (British Petroleum) 333

Government Policy 333

The EPA 333

Enforcement 334

Standards Setting and Engineering Controls 335

■ EXAMPLE: Intel and Project XL 336

Incentive Approaches 336

Superfund 337

State Policy Initiatives 337

The Political Economy of Environmental Protection 338

The Nature of Environmental Politics 338

Judicial Politics 338

Advocacy Science 338

Distributive Politics 339

Private and Public Politics 340

■ EXAMPLE: The Equator Principles 340

Nimby and Private Politics 341

Management of Environmental Protection Issues 342

■ EXAMPLE: Dow Chemical and Local Environmentalists 344

■ EXAMPLE: Mcdonald's and Waste Reduction 345

■ EXAMPLE: Environmental Activism at Home Depot 346

Voluntary Collective Environmental Programs 347

Summary 347

Cases 348

Pacific Gas & Electric and the Smart Meter Challenge 348 Environmental Justice and Pollution Credits Trading Systems 353

Environmentalist versus Environmentalist 356

Contents

Chapter 13 THE INVESTOR'S PERSPECTIVE: RENEWABLE ENERGY 358

Introduction 358

Investment Decisions 358

The Environment of Wind and Solar Power 359

Markets and Government Involvement 359

Market Signals 360

■ EXAMPLE: Environmentalist Opposition 361

Economic and Political Rationales for Subsidization 361

The Costs of Subsidization 362

Examples 363

■ EXAMPLE: The Market Threat from China 364

Example: Solyndra, Inc. 365

Risks and Opportunities Assessment 366

Market Risks: Prices and Costs 367

Nonmarket Risks 367

Distributive Politics Analysis 368

Implementation 369

Nonmarket Risks: China 370

Developments 371

Summary 372

Cases 372

BrightSource Energy: The Challenges 372

Silver Spring Networks and the Smart Grid 375

T-Solar and the Solar Power Market 377

Chapter 14 LAW AND MARKETS 380

Introduction 380

The Common Law 381

Property 382

Bargaining 382

Incentives and Appropriability 382

Intellectual Property 382

Intellectual Property Protection 384

- Patent Wars 385
- EXAMPLE: Mickey Mouse Politics and Law 386

Trademarks and Trade Secrets 387

Contracts 388

Enforceability 388

■ EXAMPLE: Genentech and City of Hope 389

Breach 390

Remedies 390

Torts 391

The Product Safety Problem and Social Efficiency 392

Entitlements, Liability, and Social Efficiency 394

Entitlements and Their Protection 394

The Assignment of Social Costs and the Choice Between Liability and Regulation 395

Products Liability 396

The Development of Products Liability Law 396

Allowable Defenses Under Strict Liability 399

Preemption 400

Damages 400

The Politics of Products Liability 401

Imperfections in the Liability System 403

■ EXAMPLE: Silicone Breast Implants 404

Summary 406

Cases 407

California Space Heaters, Inc. 407

Patent Games: Plavix 409

Obesity and McLawsuits 411

Part III Integrative Case: Spectrum for Wireless Broadband: Old Media Versus New Media 415

Part IV Global Nonmarket Strategy 417

Chapter 15 THE POLITICAL ECONOMY OF THE EUROPEAN UNION 417

Introduction 417

The European Union 417

The Single European Act 418

The Maastricht Treaty 419

The Treaty of Lisbon 419

The Institutions of the European Union 420

The European Commission 420

The Council of Ministers and the European Council 421

The European Parliament 422

The Court of Justice 422

The European Economic and Social Committee 423

The EU Legislative Process 423

The European Central Bank and Monetary Union 424

Competition Policy 425

■ EXAMPLE: Microsoft and EU Competition Policy 427

State Aids and the Common Agriculture Policy 428

The Social Charter, Social Democracy,

and Labor Markets 429

Nonmarket Issues 430

Interests and Their Organization 433

Nonmarket Strategies in the European Union 434

■ EXAMPLE: Pronuptia and Franchising 438

Summary 439

Cases 439

The European Union Carbon Tax 439

The European Union Data Protection Directive (B) 442

The Euro Crisis 444

Chapter 16 CHINA: HISTORY, CULTURE, AND POLITICAL ECONOMY 448

Introduction 448

Historical Background 448

Pre-Republican 448

The Communist Era 450

The Reform Era 452

Confucianism and Social Explanations 453

Applications in Society, Politics, and Business 455

The Nonmarket Environment and the Four I's 457

Institutions and Government 459

State Institutions 460

Provincial and Local Governments 462

Business: State-Owned Enterprises, Foreign Direct Investment, and

International Trade 462

State-Owned Enterprises 462

Foreign Direct Investment 463

International Trade Policy and WTO Membership 463

Regulation 464

Continuing Issues 464

Human Rights 464

■ EXAMPLE: An Intellectual Property Challenge 466

Energy and the Environment 468

Summary 469

Cases 470

Apple and Private Politics in China 470

Direct Selling in China 471

Google in China 472

Chapter 17 EMERGING MARKETS 477

Introduction 477

Country Assessment 477

Individual Freedoms 477

Economic Freedom 478

Corruption 478

Ease of Doing Business 478

Competitiveness 478

Political Risk 479

Sovereign Default Risk 479

Use of the Measures 479

Culture 480

Opportunities 480

Underdeveloped Markets and Business Groups 481

Opportunity at the Bottom of the Pyramid? 481

Microfinance 482

Fair Trade 485

Risk Assessment 487

Sources and Types of Risks 487

Festering Anger and Revolution 488

Management in the Nonmarket Environment 492

Summary 493

Cases 493

Social Entrepreneurship: Banco Compartamos 493

Social Entrepreneurship: Kiva 495

Equity Bank of Kenya 496

MTN Group Limited 498

Chapter 18 THE POLITICAL ECONOMY OF INDIA 502

Introduction 502

Institutions 502

Government 502

History and Economic Development 503

Economic Restrictions 504

Opportunities 505

Market Opportunities 505

Business Groups 507

Patent law 507

Pharmaceuticals 508

Nonmarket Issues 509

Corruption 509

Poverty and Welfare 510

The Missing Girls 511

Summary 512

Cases 512

Tesco PLC in India? 512

Google in India 515

Advanced Technology Laboratories, Inc. 517

Chapter 19 THE POLITICAL ECONOMY OF INTERNATIONAL TRADE POLICY 519

Introduction 519

The Economics of International Trade 520

Competitive Theory 520

Strategic Trade Theory 522

The Political Economy of International Trade Policy 523

The Dual Nature of the Politics of International

Trade 523

Asymmetries in the Politics 524

International Trade Agreements 525

The World Trade Organization 525

General Agreement on Trade in Services (GATS) 526

Trade-Related Aspects of Intellectual Property

Rights (TRIPS) 527

Agriculture 527

Contents

Government Procurement 528

Antidumping, Countervailing Duties, and Safeguards 528

Dispute Settlement 528

The Doha Round of WTO Negotiations 531

Other Trade Agreements 531

U.S. Trade Policy 532

The Structure of U.S. Trade Policy 532

U.S. Trade Law and Its Administration 532

The Political Economy of Protectionism 533

Formal Policies 533

■ EXAMPLE: Renewable Power and Trade Complaints 534

Channels of Protection 535

■ EXAMPLE: Steel Imports and the Nonmarket Campaign 536

The Political Economy of Market Opening 537

The North American Free Trade Agreement 537

Market Opening Under the Threat of Retaliation 538

Bilateral Free Trade Agreements 539

Summary 539

Cases 540

Cemex and Antidumping 540

Compulsory Licensing, Thailand, and Abbott Laboratories 545

The Airbus and Boeing Trade Disputes 549

Part IV Integrative Case: Toys 'A' Us and Globalization 552

Part V Ethics and Corporate Social Responsibility 557

Chapter 20 CORPORATE SOCIAL RESPONSIBILITY 557

Introduction 557

The Trust Gap 557

What Is Corporate Social Responsibility? 558

Milton Friedman's Profit Maximization 559

■ EXAMPLE: Timberland Company 563

Compliance with the Law 563

Market and Government Failures and Stakeholders 564

Broader Conceptions of Social Responsibility 566

Perspectives 567

Self-Regulation 568

Corporate Social Responsibility and Corporate Social

Performance 568

■ EXAMPLE: Tuna and Dolphins 569

A Framework for Understanding Corporate Social Performance 570

Terminology 570

The Setting 570

Motivations for CSP 571

Rewards 573

Summary 574

Empirical Research 574

Corporate Governance 576

Social Accountability 576

The Duties of Boards of Directors 577

Sarbanes-Oxley 578

Say-On-Pay 578

The Market for Control 579

Summary 580

Cases 580

The Collapse of Enron: Governance and Responsibility 580

Wal-Mart: Nonmarket Pressure and Reputation Risk (B): A New

Nonmarket Strategy 586

Facebook and Online Privacy 588

Chapter 21 ETHICS SYSTEMS: UTILITARIANISM 594

Introduction 594

The Managerial Role of Ethics 594

What Ethics Is and Is Not 595

Personal and Business Ethics 595

Ethics and Individual Interests 596

Ethics, Politics, and Change 596

Casuistry 597

■ EXAMPLE: Saving the Division 597

The Methodology of Ethics 598

The Relationships Among Moral Philosophy, Ethics, and Political Philosophy 599

Utilitarianism: A Consequentialist System 600

Utilitarianism and Self-Interest 601

Aligning Self-Interest with Societal Well-Being 601

Utilitarianism, Distribution, and Altruism 602

Summary of the Components of Utilitarianism 602

Utilitarian Duty and the Calabresi and Melamed Principles 602

Act and Rule Utilitarianism 603

Jointly Determined Consequences 605

Decision Making in the Face of a Moral Transgression 606

Utilitarianism and Rights 606

Criticisms of Utilitarianism 606

Philosophical Criticisms 606

Interpersonal Comparisons of Utility 607

Identifying Costs and Benefits 608

The Measurement Problem 608

The Information Problem 609

Utilitarianism in Application 609

Categories of Situations 609

Methodology 610

■ EXAMPLE: Integrity Tests 610

■ EXAMPLE: Life Insurance Screening for Preexisting Conditions 611

■ EXAMPLE: Redlining 611

Summary 612

Cases 613

Pricing the Norplant System 613

Gilead Sciences (A): The Gilead Access Program for HIV

Drugs 615

Consumer Awareness or Disease Mongering? GlaxoSmithKline and the Restless Legs Syndrome 619

Chapter 22 ETHICS SYSTEMS: RIGHTS AND JUSTICE 622

Introduction 622

Classification of Ethics Systems 622

Classes of Rights 623

Kantian Maxims or Moral Rules 624

The Relationship between Maxims and Rights 624

Intrinsic and Instrumental Rights 625

■ EXAMPLE: Privacy 627

Criticisms of Kantian Rights 628

Applied Rights Analysis 629

Claimed and Granted Rights 629

A Methodology for Rights Analysis 630

■ EXAMPLE: Life Insurance Screening for Preexisting Conditions 631

Conflicts Among Rights 631

Rights and Interests 631

Prioritization 632

■ EXAMPLE: Integrity Tests 633

Equal Employment Opportunity 633

■ EXAMPLE: Disparate Impact versus Disparate Treatment 635

Paternalism 637

Neoclassical Liberalism 637

Categories of Justice Theories 638

Distributive Justice 638

Compensatory Justice 639

Injustice 640

Rawls's Theory of Justice 640

The Framework for Justice as Fairness 640

The Principles of Justice 642

The Role of Incentives 643

Duty in Rawls's Theory 644

■ EXAMPLE: Clinical Trial Obligations 644

Criticisms of Rawls's Theory 645

■ EXAMPLE: Affirmative Action 646

Applying the Principles of Justice 647

■ EXAMPLE: Integrity Tests 647

■ EXAMPLE: Redlining 648

■ EXAMPLE: Life Insurance Screening For Preexisting Conditions 648

Implementing Ethics Principles: Levi Strauss & Company and Global Sourcing 649

Higher Order Standards for Evaluating Ethics Systems 650

Summary 651

Cases 652

Genetic Testing in the Workplace 652 Chipotle Mexican Grill and Undocumented Workers 654 Environmental Injustice? 656

Chapter 23 BEHAVIORAL ETHICS, INDIVIDUALS, AND MANAGEMENT 659

Introduction 659

Behavioral Ethics Experiments 660

Self-Interest, Altruism, and Fairness 660

Audience Effects, the Self, and Corporate Social Responsibility 662

Reciprocity 663

Behavior in Groups 665

Implications for the Application of Ethics Principles 666

Moral Suasion 666

Conclusions from the Experiments 667

Extrapolation 668

Overconfidence in One's Self 668

Managerial Implications 668

The Challenge of Corporate Social Responsibility 670

■ EXAMPLE: Citigroup: Responsibility Under Fire? 671

Core Principles and Their Evolution 672

■ EXAMPLE: Johnson & Johnson's "Our Credo" 673

Sources of Unethical Behavior 673

Summary 674

Cases 675

Denny's and Customer Service 675

Insider Trading 677

Fresenius Medical Care in China 679

Chapter 24 ETHICS IN INTERNATIONAL BUSINESS 681

Introduction 681

International Law and Institutions 681

Cultural Relativism 683

Human Rights and Justice 686

Slave Labor in Saipan? 686

Operating in Developing Countries 686

AIDS and Developing Countries 687

Responsibility for Working Conditions in Suppliers' Factories 688

Sweatshops 688

Private Governance and Self-Regulation: The Fair Labor

Association 689

Company Responses 690

Questionable Foreign Payments and Corruption 691

Questionable Payments and Ethics Principles 691

The Lockheed Case 692

A Utilitarian Analysis of Bribery 693

The Foreign Corrupt Practices Act 694

The UK Bribery Act 695

Company Codes 695

Cummins's Practice 696

The OECD Anti-Bribery Convention 698

Summary 698

Cases 699

Google Out of China 699

De Beers and Conflict Diamonds (A) 702

De Beers and Conflict Diamonds (B) 703

Siemens: Anatomy of Bribery 704

Part V Integrative Case: Glaxosmithkline and Aids Drugs Policy 707

References 712 Index 724