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PREFACE

This volume undertakes an interdisciplinary analysis of business's social role. It represents an effort to integrate the fundamental perspectives of management and sociology, and to bring them to bear upon the issue of corporate social responsibility. In most existing studies, managerial and sociological points of view tend to be mutually exclusive, and are not infrequently regarded as diametrically opposed. While we appreciate some of the reasons for this state of affairs, and respect the work of others within these individual frames of reference, we believe that a more holistic treatment of the problem of the corporate social role is in order. As a step in this direction, it is our goal to build some bridges between management studies and sociology, and to promote further dialogue of an interdisciplinary nature.

We wish to emphasize at the outset the intent and limitations of our discussion, not in a defensive spirit, but merely to clarify our aims and our scope. First, the present work does not seek to be comprehensive, and is much closer to a monograph than to a text. It is therefore probably best used in conjunction with some more general source, whether text, casebook, or reader. Second, although we attempt an interdisciplinary analysis—drawing from business and society studies, business policy, business ethics and sociology—this should not be viewed as a boundary or complete analytic framework. The perspectives of other allied fields—political science, organizational behavior, and psychology among others—have much to offer in furthering our understanding of the complex phenomena in question. Third, the particular cases provided in this book are likewise not exhaustive in character, and are intended primarily to illustrate potential applications of the central conceptual model.

Another concern focuses on the conceptual language used throughout the book. While it is our hope that this language is clear and appropriate to the task, we admit to imperfections in some of the terms selected, especially for the four philosophies of social responsibility. To a considerable degree, such problems are unavoidable, for complex phenomena cannot be forced into the confines of any single word. A variety of alternatives were tested over a period of time, so that the central concepts of productivism, philanthropy, progressivism and ethical idealism seem most appropriate to us despite their shortcomings. In this regard, the term ethical idealism has perhaps remained the most problematic and may not suit the taste of all readers.

In setting out what seem to us the most important perspectives on corporate social responsibility, we have tried to place ourselves in the background rather than inculcate our own beliefs and priorities. Each philosophy of social responsibility has thus been treated with respect, so that it might receive a full and fair hearing from our readers. Our effort to remain relatively non-partisan may be a disappointment to some, while others may dismiss it as an impossibility. Yet it has been our consistent view that a dialogic, rather than militantly ideological, approach best serves the interests of all. Nonetheless, at various points our preferences and commitments may appear between the lines.

The book has developed gradually over a period of several years, many of its chapters and other components being originally a series of papers delivered at social issues sessions of the Academy of Management, and The Institute of Management Science and Operations Research Society of America (TIMS/ORSA). Many of the ideas presented here reflect fuller analysis and discussion of an article entitled "Corporate Responsiveness Policies and the Dynamics of Bank Reinvestment Policy" which appeared in Volume 6 of Research in Corporate Social Policy and Performance (JAI Press, 1984). We found ourselves often surprised as further implications continued to unfold from the conceptual skeleton we had built. At times, the process seemed to have a dynamic of its own, until we unexpectedly reached the point where there seemed to be sufficient material for a book. Our original intent was not to write a book at all, but simply to stimulate a fuller interdisciplinary discussion of business's social role.

As with any work of this nature, there are a number of people to thank for their support and contribution. Many of our academic colleagues, especially Rob Enggist, Mike Hatcher, Ed Marshall, Sev Bruyn, Mike Hoffman, Joe Raelin and Walter Klein have directly or indirectly influenced our thinking in writing this book. Lee Preston provided numerous comments and suggestions on early portions of the manuscript. Gerald Mulligan and Stanley Zoll (Office of the Commissioner of Banks), Frank Dooher, Maureen Ball, and Joanne Schenck (Boston area bankers), John Moynihan (Archdiocese of Boston), David Jones and the staff at the Massachusetts Urban Reinvestment Advisory Group, and the staff at the Industrial Cooperative Association were quite helpful in providing information and insight during the research process. Kathy Kerrigan and Kim Waitkus expertly typed the manuscript, often under considerable time pressure with us looking over their shoulders. Mary Daly, our secretary at Bentley College, oversaw the production process. Finally, our wives, Mary Alice and Allison, to whom this book is dedicated, listened to our ideas and complaints, and undertook more than their share of child rearing responsibilities despite their own career demands during the lengthy process of completing this book.

We sincerely hope that this work will be of benefit to others in their own research. We should succeed if we raise more questions than we answer, and if these questions are sufficiently interesting for others to explore the fruitfulness of the conceptions we propose, modifying or extending them as need be.

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BUSINESS AND SOCIETY: THE GENERAL DEBATE

There was a time, in the not too distant past, when a U.S. president could declare that, "The business of America is Business," and feel confident that everyone in his audience would understand the reference. Today, the circumstances are quite different. Most people—professionals and lay people—would probably agree that business is still the dominant social institution in this country. It has become increasingly difficult, however, to attain consensus on the specific mission of the corporate sector. Business organizations and their management are currently facing many new demands which are based on changing societal expectations about the appropriate role of the corporation in the larger social system. This situation has given rise to a growing literature on "business and society," which is now a standard component of managerial training at the university level. In the political arena, there has simultaneously been vigorous debate over proposals which range from integrated industrial policies and increased governmental oversight to the deregulation of entire industries. The question on everyone's mind seems to be, "What _is_ the proper business of business?"

Most people would agree with the proposition that social concerns should be included in the everyday operations of business firms. These same individuals, however, would tend to disagree about _what_ concerns to incorporate and _how_ to implement them.[1] The past two decades have witnessed calls for corporate reassessment of manufacturing processes in the light of imminent environmental dangers, for modification of the racial and sexual composition of our labor force, for improved product safety, and for more concern about the health and general well-being of employees.[2] And these are only some of the more prominent issues. A recent study, sponsored by the prestigious Business Roundtable,* which focused on these issues from the viewpoints of the general public, relevant interest groups and business executives, revealed a greatly broadened view of the concept of "corporate performance."[4] In addition to the traditional financial and economic-oriented aspects of business activity, significant performance issues ranged from meeting consumer expectations in the marketplace, the appropriate magnitude of business profit and executive compensation, and the usefulness and validity of financial reporting and control, to quality of work life issues, employee citizenship rights, political participation and influence, and ethical and social behavior. While many business executives might attempt to dismiss these expectations as unacceptable or misguided perceptions, such aspects of corporate performance have become the subject of public debate and government action.

Public expectations toward the business sector have evolved to the point where firms are presently evaluated on social and ethical grounds as well as the traditional economic and legalistic performance criteria.[5] However, a consensus on the nature of business's social role has yet to emerge. There is also ample confusion concerning the underlying nature and stability of these broad interpretations of corporate performance.[6] In many instances, the resultant dialogue has been manifested in ongoing controversy between the business sector and an increasing array of claimant groups and public or private "watchdog" agencies.

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*The Business Roundtable is an organization composed of approximately 190 major U.S. corporations. Membership is composed of the chief executive officers of a wide array of firms—manufacturers, banks, retailers, insurance companies, the extractive industries, and transportation and communication companies. Formed in 1972, the Roundtable is oriented toward more cooperation and less antagonism between the business sector and government. Its basic goals are: 1) to facilitate mutual interaction on various issues by bringing different companies together; and 2) to present the government and the public with knowledgeable and timely information, combined with suggestions for policy and action. In order to accomplish these goals, the Roundtable serves as a vehicle to directly involve CEOs in the public policy decision-making process.[3]

While most business people recognize that there have been various instances of socially unacceptable business decisions and activities, as a group they rarely agree with the proposals suggested by such external groups. This has contributed to the further debate concerning the scope and parameters of corporate performance.[7] Thus, while everyone may agree that we are in the midst of unprecedented social change in our major institutional sectors—educational, political, familial, and economic—not everyone agrees on business's role and responsibilities in this transformation.

CORPORATE STOCKHOLDERS AND STAKEHOLDERS

One way of defining the social function of business is to analyze the relationships between economic firms and the social groups which are affected by their operation. Most immediately relevant for this purpose are groups of owners, employees, customers, suppliers, local communities, and governmental agencies. The social bonds between corporations and these publics, as one would expect, are variable in terms of their intensity, duration, and particular significance. This variability, and the ambiguities inherent in the situation, have given rise to two opposed perspectives—the stockholder and stakeholder models of corporate activity.

Stockholder Model of Corporate Performance

Through most of American history, the stockholder model has been the norm. According to this view, a corporation is essentially a piece of private property which is owned by the persons who hold stock. These owners elect a board of directors for the corporation, who serve them and guide the corporation in their best financial interests. Future stockholders are eventually attracted by the economic performance of the firm, and decide to invest their money under the expectation that they will receive a fair and reasonable gain in the value of their equity. Such gains are forthcoming when the firm is properly managed under a general policy of profit maximization. Employees are also viewed as servants of the firm, functioning as technical instruments in production, marketing, and sales. The corporation is considered to be a private group of individuals bound by formal contract, which has the freedom to arrange its affairs according to its own preferences, so long as it does not violate any fundamental social norms, such as those prohibiting fraud.

The stockholder model assumes that relations between individual corporations and the groups affected by their operation are best structured as marketplace transactions, based on mutually beneficial exchange. Free markets, responding to and expressing the voluntary choices of individuals and groups, serve several basic functions. They quickly and efficiently store and transmit information relative to supply and demand in the form of adjustable prices. They expand and contract according to the economic realities of the day. And they safeguard all participants against the use and abuse of arbitrary power. For so long as markets include a plurality of buyers and sellers, producers and consumers, employers and employees, none of these individual groups will be controlled by unregulated power centers.[8] The free market, in fact, rather than government, is the great social regulator, and may be said to be as democratic as any social institution is capable of being, when operated under the proper conditions.

As noted above, this stockholder view of the corporation and the economy, in which business firms are regarded as technical instruments for the production of wealth, constituted the dominant, orthodox approach from the end of the eighteenth century into the twentieth. Toward the end of the nineteenth century, certain modifications were added, in the form of antitrust laws intended to prevent the largest corporations from controlling their markets. Early in the present century, other reformist efforts led to federal laws requiring that food and drugs be safely manufactured. Despite such alterations, however, the dominant stockholder view prevailed and seemed unchallengeable.[9] Even the Great Depression of the 1930s seems not to have threatened it in the popular mind. As the Lynds reported in their classic study of Middletown (Muncie, Indiana), there was a widespread desire that economic and political relations return to normal as quickly as possible, which meant that private businesses should be permitted to pursue profit to the extent of their capabilities.[10] Business was considered socially responsible because it produced wealth, permitted free enterprise, and supplied jobs.

Stakeholder Model of Corporate Performance

In contrast to the stockholder view, an emergent perspective referred to as the stakeholder model regards corporations as servants of the larger society. This view indicates that there are increasing demands on business organizations which include a wider variety of publics not traditionally related to the corporation's immediate self-interest.[11] Indeed, as Ackerman and Bauer argue,

> It makes more sense to conceive of the business firm as the central element of a role set in which a new pattern of relationships among the elements is evolving. Each of the parties, either directly or via volunteer spokesmen (e.g., consumerists) is pressing its interests. Presumably, the various elements of the role set are moving toward some state of equilibrium. The firm will have to develop the capacity to manage this demanding set of relationships.[12]

Essentially, this model of corporate activity proposes that each organization has a set of stakeholders who are materially involved with the firm through different transactions and are affected by its performance. Thus, the notion of stakeholders goes beyond the immediate interest of stockholders. It views profit in broader terms, with a longer-term focus that encompasses greater consideration for other groups in the firm's environment. The significant concentrations of resources which businesses control are therefore to be managed in the public interest as a kind of trust. Profit should be pursued within the basic objectives of public policy, such as a pollution-free environment or a racially and sexually integrated work force. Employees are regarded as persons who have a wide range of needs in which the corporation must take an interest. Stockholders continue to occupy a place of prominence, but their interests and desires are no longer absolutely decisive for the determination of corporate conduct.

Inasmuch as the stakeholder model can include an indefinitely large number of groups with some interest in corporate operations, a further distinction is usually made between primary and secondary stakeholders. <u>Primary stakeholders</u> are those individuals and groups who are most directly affected by the activities of the firm, and who make some tangible contribution to its functioning, such as employees, customers, and suppliers. <u>Secondary stakeholders</u> are affected by corporate actions, but do not participate in the ordinary operations of the business. Examples would include consumers as a group, women, ethnic minorities, environmental groups, the press, and competitors.[13] The relationships here are very dynamic, since the perceptions and demands of any factions can change without warning. It is also interesting to note in passing that while many contemporary executives are quite willing to recognize the concept of stakeholders in general, they often resist the inclusion of what are regarded as adversary groups in the set of interested parties whose welfare must be considered.

A growing body of evidence indicates that the stakeholder model of the corporation is becoming the new orthodoxy, especially within large corporations and university schools of management. A Harvard Business Review survey, for example, reported that only 2 percent of a sample of 3,453 business people agreed that the most valid description of a corporation's duty was primarily to its owners and only to its owners.[14] By contrast, 61 percent described the most valid role of the corporation as trying to serve as fairly and equitably as possible the interests of employees, customers, and the public, as well as the owners of the organization (see Table 1.1). Other surveys have also indicated that business people feel greater responsibility to their customers than to their stockholders.[15] Such results suggest that an important component of the professionalization of management has been the adoption of a stakeholder view of corporate operations.

Given this orientation, some of the most critical tradeoffs facing management today are between the demands of different constituencies, who each have a stake in some aspect of the organization's performance.[16] Based on the responses in a 1984 survey of 1,460 executives, middle level managers, and supervisory managers, for example, stockholders were again viewed as far less important than customers, internal stakeholders such as subordinates, co-workers and other employees, and the general public (see Table 1.2). Even though managers at different hierarchical levels weighed the importance of these stakeholders differently, the order of relative importance is quite similar. Thus, the traditional stereotype of managers running their organizations for the primary benefit of their stockholders does not seem to be supported by these studies.

One should not conclude, however, that the stakeholder view is progressing without significant problems or opposition. An important stumbling block which has been recognized in the literature is the allegiance of managers to themselves and their own career interests. Because job tenure has become very unstable, even for senior level managers, success for an executive's career may not coincide with success for the stockholders or stakeholders of the firm. Statistics show that the terms of chief executive officers average seven years, and

TABLE 1.1

Managerial Opinions of the Role of the Corporation (in percent)

Viewpoint	Strongly Agree	Agree	Disagree	Strongly Disagree
A corporation's duty is primarily to its owners and only its owners.	2	4	20	74
A corporation's duty is primarily to its owners and secondarily to employees, customers, and the public.	20	38	40	2
A corporation's duty is to serve as fairly and equitably as it can the interests of four sometimes competing groups—owners, employees, customers, and the public.	61	24	9	6
The primary duty of the enterprise is to itself—to ensure its future growth and continued functioning as a profit-making supplier of goods and services.	28	29	27	16

Source: Reprinted with permission of the Harvard Business Review. An exhibit from "Who Wants Corporate Democracy?" by David W. Ewing (September/October 1971).

TABLE 1.2

The Importance of Various Organizational Stakeholders

	Supervisory Managers	Middle Managers	Executive Managers
Customers	5.57	6.10	6.40
Myself	6.28	6.29	6.28
Subordinates	6.06	6.30	6.14
Employees	5.93	6.11	6.01
Boss(es)	5.72	5.92	5.82
Co-workers	5.87	5.82	5.81
Colleagues	5.66	5.78	5.75
Managers	5.26	5.56	5.75
Technical employees	5.21	5.32	5.40
White collar employees	4.96	5.25	5.40
Owners	4.07	4.51	5.30
Craftsmen	4.14	4.75	5.01
General public	4.38	4.49	4.52
Stockholders	3.35	3.79	4.51
Elected public officials	3.81	3.54	3.79
Government bureaucrats	3.09	2.05	2.90

Scaling: 1 = little importance to me; 7 = very important to me.

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this fact of life may motivate some individuals to place themselves and their career paths above the interests of either stockholders or stakeholders.[17] Moreover, it is important to note that the relatively high rating of "myself" as an important organizational stakeholder in Table 1.2 further reinforces this concern. Posner and Schmidt also found that this high ranking did not change when the data were controlled for gender, age, education level, salary, or years of experience. These findings question the stereotype of younger generations of managers as being more (or less) narcissistic (the so-called "me-generation") than other generations of managers in today's business organizations.

In summary, several analyses have suggested that management of large business organizations in our society has moved from ownership orientations to more of a trusteeship orientation where there is concern for a wider range of claimant groups related to the firm. As the social environment—through many of these critical constituencies—sends messages to business organizations in a number of different forms (for example, social criticism, legislation, media criticism, and so on), such groups are viewed as increasingly operating as "arbiters" of social responsibility.[18]

DEFINING THE ISSUE: FROM SOCIAL RESPONSIBILITY TO SOCIAL POLICY

While the stakeholder model suggests that business organizations have a broad social role with concomitant responsibilities to a number of relevant publics, the nature of this role and responsibility is still debated. In fact, scholarly examination of these issues has resulted in a variety of conceptual approaches, each defining the business and society field and its agenda of study in a distinctive way. Four general perspectives have become especially prominent for both research and teaching in this area: social responsibility, social responsiveness, social performance, and social policy. These orientations are presented in a chronological and logical sequence, for the earlier concepts dealt more with general ends and moral norms, while the latter have increasingly focused on specific means and technical norms. As part of a foundation for the analysis of current concerns, each of these major conceptualizations will be briefly reviewed.

Corporate Social Responsibility

Although the idea that business organizations should be socially responsible for their actions has increasingly been placed at the forefront of debate and discussion in today's society, the concept itself is not a contemporary idea. In fact, the rationale for the business sector to assume broader patterns of social awareness and responsibility can be traced back over many centuries.[19] Contemporary usage of the term "social responsibility," however, is usually traced to the 1953 work of Howard Bowen, entitled Social Responsibilities of Businessmen. This volume raised several basic themes which are still reflected in discussions of business and society three decades later.