Cambridge University Press & Assessment
978-1-107-60525-1 — Corporate Responsibility
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Excerpt
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Introduction

The Corporation in the Public Square

For two centuries, Americans have tried to reconcile two realities of modern capitalism. Corporations – capitalism's dominant organizational form – are very efficient mechanisms for producing wealth, meeting consumer needs, and building industries that employ millions. Yet corporations also often impose costly externalities on communities and the natural environment and cause unwanted transformational change. Government, citizens, and often business leaders themselves, have responded by insisting that corporations – individually and as a group – assume responsibility for more than their narrow economic results.

Corporate responsibility remains, however, a controversial concept. Should businesses have responsibility for providing society with health care, racial equality, support for education, arts and culture, while also minimizing climate change, promoting social optimism, participating in national politics, and effecting economic redistribution of wealth? Or should these "public goods" be the domain of government? Do corporations represent a progressive or regressive force in society? How has the debate over the appropriate degree of corporate responsibility evolved during different eras of American history, and how have corporations responded? The debate has grown broader and more complex as corporations have expanded their commercial influence, technological advances, and geographical reach. Where is it heading in the next few decades? When the revenues of our largest corporations exceed the gross domestic product of nations, and corporate profits set new records while vast segments of the population remain unemployed, people are prone to question the role, responsibility, and power of business.

Institutions cannot survive and prosper without the acceptance, endorsement and support of others in society. This includes a tolerance for the sometimes-negative consequences of institutional activities and permission to behave within the framework of rules established by society, often described as a "license to operate." This book discusses how business – especially the modern corporation – has sought and secured public acceptance, endorsement, and support – in other words, *social legitimacy* – in America since the nineteenth century.

At heart remains this basic question: Are corporations responsible for more than generating profits? If so, how far should this line of reasoning be taken? Should a corporation have the same rights and responsibilities as an individual? On January 21, 2010, the United States Supreme Court handed down a decision that addressed this question. The case, *Citizens United* v. *Federal Election Commission*, rejected corporate campaign spending limits, overruling decades of legal precedent establishing rules to curb the flow of corporate money into political campaigns. The majority of the Court's justices argued that the constitutional right of free speech extended to corporations, as well as humans, and that government ought not to regulate political speech. The minority sharply disagreed, seeing a core distinction between corporations and humans as citizens, and predicted the majority's decision would stimulate a flood of corporate money into the political marketplace and corrupt democracy. The clashing views in the *Citizens United* case ultimately turned on arguments about the nature of the corporation as a "legal person," its rights and responsibilities as a citizen, and the application of constitutional protection of rights that the founders could never have imagined would one day be applied to modern corporations.[1]

In 2011, the corporation once again became a focal point for public protest when protesters began a movement called "Occupy Wall Street." Claiming to represent the "Other 99 Percent," the protesters described an agenda of grievances beginning with corporate power and alleged Wall Street influence on government policy, and including a wide range of tax, welfare, income inequality, and other social justice issues. Critics debunked the protests as an attack on capitalism, but the fledgling movement spread across the nation as the slogans and chants of the protesters underscored how the public sense of what corporations are obligated to do in the name of "corporate responsibility" was shifting once again.

The idea of corporate responsibility can be traced back centuries, even before the founding of the United States. Through the Industrial Revolution of the 1800s, to the New Deal and Great Society of the twentieth century, to the banking crisis and Great Recession of contemporary times,[2] the prerogatives and limits of corporate power have been a lightning rod for public debate and practical action. Business has always been controversial, and critics have never lacked examples of irresponsible behavior to support their case for government regulation. That is why business leaders – from the 1890s to the present – have worked to make their case in the "public square" that the economic benefits created by business are substantial, distributed widely in a capitalist society, and are the fruit of a free and open society. Each generation has seen the need to create what John Kenneth Galbraith called the "countervailing power" of government or other institutions to offset corporate power and ensure that abuses are curbed, and the public is well served by corporations in each era.[3] The two-century battle for corporate responsibility and business legitimacy revolves around two central questions: *To whom, and for what, is the modern corporation responsible?*[4]

To understand the evolution of the idea of corporate responsibility, it is necessary to recognize that two conceptual strands of history contribute to the development of the idea and practice. First, it is important to look carefully at the actions and events (social, political, and economic) that have marked the corporate story in America, and indeed American history generally, in the decades since the nineteenth century. The interaction of key events and actions by business and other social actors tell a fascinating, complex story of people, institutions, and progress. Corporate responsibility is part of that history, an essential theme in the stories of conflict and comity that appear throughout the broader historical narrative.

Second, it is also important to look at the evolution and diffusion of ideas about business responsibility, especially in the corporate forum. The consequences of America's business culture are manifested in numerous ways, some positive, others not. Hundreds of writers and observers have commented on the tension between business and society since the nineteenth century. These conflicts have been studied from many perspectives, and have been interpreted through a variety of theories, concepts, and models of business behavior and definitions of corporate social responsibility. These constructs, in turn, have become part of the social fabric or context of ideas against which corporate behavior is evaluated and assessed by others in society.

Together, two centuries of interaction have entwined these strands of the "double helix" of practice and ideas, reality and theory, and shaped a social conception of what we now consider to be "responsible corporate behavior." Simply stated, corporate responsibility was not born whole, but has grown as the product of countless interactions, in the minds and through the interactions of generations of business men, women, and social activists. And, as the *Citizens United* decision in 2010 illustrates, the struggle for legitimacy continues.[5]

Why do corporations "do good"?

The history of business in America shows that there are three primary reasons for corporations to "do good" (to do those things that seem unnecessary to achieving an immediate profit) as they are trying to "do well" (be profitable). One reason, of course, is that the law mandates that certain "good" practices be followed in the workplace or community. Second, even if the law does not require the action, pressure from various constituencies and pressure groups may make it compelling to do so. Third, a company (or its leaders) may find it to be in the self-interest of the business, including the living out of an organization's values, beliefs, and principles.

Within the framework of what a company stands for, certain actions are called for just because they are deemed the "right thing" to do. Leaders often see opportunity in changing practices, investing in new products or services, or altering the conventional way of running the business. Innovation is a powerful theme in American business history, and the forms that the innovative mind may take are limitless. Simply stated, doing the "right thing" is a form of moral and ethical innovation. From Edison's amazing invention of electricity (which led to the founding of General Electric) to organized research laboratories such as Xerox, "garage inventors" such as William Hewlett and David Packard (Hewlett-Packard), or corporate campaigns such as GE's "Ecomagination" in the twenty-first century – innovation has defined the story of American business. So, too, has the urge to treat employees well, deliver good value to the customer, and be a positive force in the communities where the firm does business. Not surprisingly, examples of businesses that are both doing "well" and doing "good" have mushroomed.

The arguments for being "responsible" are numerous and varied, but generally reflect a continuing social conversation about two core ideas that course through the American experience. One is the celebration of the *individual*, be it the colonial farmer of the 1700s; a working man in the steel mills of the nineteenth century; an oil wildcatter in the early twentieth century; or a computer "geek" in the late twentieth century. The second idea that travels with us from John Locke and Adam Smith in the 1700s to the present is the notion of that which we share in "common." What was held "in common" during the early history of America as a nation was a physical space in a New England town – a square of land on which cattle can graze, to a park that all citizens could enjoy, to a space with amenities such a bandstand, town hall, or civic center. Other words have been used throughout American history to express and extend this common theme – words such as "commonweal," "commonwealth," "common cause," or "common good." To individualism and "the common" Americans have regularly added the ideas of rights (individual rights, collective rights) and responsibilities (individual responsibilities, common responsibilities). While many modern policy debates juxtapose "individual rights" against "common responsibilities," the truth is that these ideas – individual, common, rights, responsibilities – have crisscrossed the landscape of American conversation over two hundred years. Social commentators, from de Tocqueville in the eighteenth century to the pundits and bloggers of today have argued, debated, and theorized about how to reconcile and adjust individual freedom and the common good through the balancing of rights and responsibilities.

These debates have one other feature as well, namely their continuation at the level of the corporation and government. The development of American society over more than two centuries has involved the development of institutions that are larger, more complex, and vastly more powerful than the nation's founders knew or that political theorists imagined. The growth of the American economy reflects many innovations, including the creation and evolution of institutions that operate on a scale that now affects more than 300 million citizens each day. Moreover, given the global reach of American economic and political influence, many of the world's 7 billion inhabitants are regularly affected as workers, suppliers, and consumers of American products, services, and ideas.

The genius of democratic capitalism is its ability to coordinate the wellbeing of the individual and the community through mechanisms such as markets, politics, and "voice" (that is, the free and open expression of public opinions and ideas). The "public square" is the interplay of these mechanisms as they mediate the aspirations, interests, and concerns of individuals and institutions. In this respect, "the corporation in the public square" is a metaphor for the broader, continuous social conversation about what is expected of all citizens – corporations and individuals alike – and how they should behave in order to achieve the promise of democratic capitalism. The process, from the time the nation was founded, to the creation of the corporate form and beyond, has rarely been simple or clear. It is a "work in progress" that continues today.

Robert Nisbet, a leading historian and social theorist of the mid- to late twentieth century, noted that "The idea of progress – the belief that mankind has advanced in the past, and will inevitably advance in the foreseeable future – is a peculiarly Western faith with a long history and a doubtful future." According to Nisbet, other ideas such as liberty, justice, equality, and community are embedded within the idea of progress. "No single idea has been more important than . . . the idea of progress in Western civilization for nearly three thousand years . . . [T]he idea of progress is a synthesis of the past and a prophecy of the future."[6]

Progress involves two propositions. First, there must be a cumulative improvement in knowledge and the many ways humans have for coping with the problems presented by nature and by human beings trying to live with one another in groups. The second proposition centers on mankind's moral or spiritual condition. "The goal of progress or advancement is mankind's eventual achievement, *on earth*, of these spiritual and moral virtues, thus leading toward the ever-greater perfection of human nature."[7]

Nisbet acknowledges the existence of many skeptics, citing a long list of philosophers (Nietzsche, Schopenhauer), historians (Toynbee, Weber), and political commentators (de Tocqueville) who reach an opposite conclusion: that progress (by way of technological advances, for example) leads to moral decline! But as he writes, "Everything now suggests . . . that Western faith in the dogma of progress is waning rapidly in all levels and spheres in (the) final part of the twentieth century."[8] World wars, totalitarianism, economic depressions, and "other major political, military, and economic afflictions" suggest that the very values that express the optimism of a "progressive" society may be eroding, undermining faith in progress itself.

Therein lies the corporate dilemma: As a "corporate" community we must look to individual and institutional values and performance to assess whether or not progress is still a hopeful prophecy. This assessment cannot be made without a careful consideration of the institution that has come to symbolize the very essence of economic life: the modern corporation. The corporation is not neutral when it comes to our idea of progress: its size and power make that impossible. But is the modern corporation a *progressive* force or a regressive force? Is corporate power and responsibility advancing society or holding it back? The answer to this question is filled with importance for those who live in the twenty-first century.

The meaning of corporate responsibility

Corporate responsibility is not a unitary idea. Corporate responsibility is, in fact, a *concept*, a *challenge to business*, a *field of practice*, and an area of *academic study*. These varied interpretations make it difficult to precisely define the concept and its practice. But, as citizens, we tend to know it when we see it or don't see it. An organization that dumps toxic waste into a nearby stream is almost certainly judged to be irresponsible. A company that conserves electricity and aggressively recycles its waste is almost certainly considered responsible. A business that has a diverse workforce, invests in employee training, and pays a competitive salary with benefits is probably considered responsible; one that discriminates for or against one group of people is likely to be judged as failing to be responsible. In these ways, corporate responsibility is, somewhat like beauty, in the eye of the beholder. But corporate responsibility is not entirely subjective. American society (and increasingly, the global community) has established norms and standards for the disposal of waste, conservation of resources, and non-discriminatory work practices. In other words, there are some legal minimums, and beyond them voluntary norms and practices, that society, through numerous associations and as a whole, defines as responsible or irresponsible.[9]

This book examines corporate responsibility as a concept, as a challenge to business, as a field of practice, and as an area of academic study. As a *concept*, it is the idea that the corporation exists in society and has rights and responsibilities as a member (or citizen) of that society. The struggle to define corporate responsibility with precision has frustrated many scholars over the years. The task becomes even more complicated when the word "social" is inserted, as in "corporate social responsibility" (CSR), as it has often been called in the past fifty years. Dow Votaw explained the dilemma many years ago:

> The term . . . is a brilliant one; it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others it means socially responsible *behavior* in an ethical sense; to still others, the meaning transmitted is that of "responsible for," in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for "legitimacy," in the context of being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behavior on businessmen than on citizens at large. Even the antonyms, socially "irresponsible" and "non-responsible," are subject to multiple interpretations.[10]

As the twentieth century ended, Professor Archie Carroll (coauthor of this book) analyzed the corporate responsibility literature from the 1950s to the end of the 1990s. He concluded that this half-century of research and scholarship was characterized by a period of conceptual and definitional ferment in the 1960s and 1970s, followed by an era of empirical research during the 1980s and 1990s.[11] Taken together, these two eras have reinforced the core of the corporate responsibility construct that emerged in the 1950s, verified its empirical importance, and introduced a number of complementary ideas such as corporate social performance measurement, stakeholder theory, corporate citizenship, business ethics, and sustainability.

While we still lack a precise and universal conceptual definition of corporate responsibility, there is a general understanding of corporate responsibility that flows from the ways it is used in practice. A 2008 study by Alexander Dahlsrud compared and contrasted thirty-seven definitions of corporate social responsibility.[12] By analyzing the frequency and terms of these definitions, Dahlsrud showed that existing definitions are largely congruent, leading the author to conclude that the need is not for a new definition of corporate responsibility, but a deeper understanding of how the term is used in context and practice. In the vast literature of the field, five overarching topics include: (1) The *environmental dimension*, including the "natural environment," "a cleaner environment," "environmental stewardship," and "environmental concerns in business operations"; (2) the *social dimension*, including "contribution to a better society," the "relationship between business and society," "integrating social concerns in business operations," and "considering the full scope of their impact on communities"; (3) the *economic dimension*, including socio-economic or financial "contribution to economic development," including "preserving profitability," CSR in a firm's "business operations"; (4) the *stakeholder dimension*, including firms' "interaction with their stakeholder groups," or "how organizations interact with their employees, suppliers, customers and communities"; and (5) the *voluntariness dimension*, including "actions not prescribed by law," "based on ethical values," or actions "beyond legal requirements."

While a consensus understanding of corporate responsibility may be evolving, attempts to reframe the debate continue. In 2011, for example, Harvard professor Michael Porter and coauthor Mark Kramer opined that the operative definition of corporate responsibility is one of "creating shared value" (CSV) between the corporation and its stakeholders, including traditional suppliers, distributors, and so forth, and such nontraditional actors such as nonprofits in the twenty-first century economic value chain.[13] Their article ignited a broad conversation among business and community leaders, and while their stakeholder view is not original and has a number of limitations, it started a new wave of discussion about how corporate responsibility is practiced in the second decade of the twenty-first century.

Corporate responsibility holds the "middle ground" between those who see no faults with capitalism and those who see no virtues in capitalism. The critique of capitalism has been sharply drawn since the Industrial Revolution, relying heavily on a Marxian view of exploitation of both workers and consumers as the *sine qua non* of factories, markets, and competition. The defense of capitalism – some might call it an apology – is often described in aggregate terms such as the gross national product, average income, or national wealth. Within these concepts lie more subtle issues such as income disparity, social inequality, and intergenerational equity. Corporate responsibility asserts that capitalism is not perfect, but that the system can be perfected; capitalism has faults, but they can be addressed through other institutions (government) or through voluntary action by capitalists themselves.

The ideological debate continues, however, between those who believe in corporate responsibility and those who see any voluntary action outside the economic marketplace as an attack on capitalism itself. Ironically, at the same time that the Porter and Kramer article appeared, another author, Professor Aneel Karnani of the University of Michigan, refashioned Milton Friedman's 1970s argument that the "social responsibility of business is to increase its profits," and ignited another hot debate by arguing that companies can sometimes do well by doing good. But the idea that companies have a responsibility to act in the public interest and will profit from it, he argued, is fundamentally flawed.[14] A leading public relations firm claimed that more than 60 percent of its survey respondents agreed with Friedman's proposition in countries as diverse as United Arab Emirates, Japan, India, South Korea, and Sweden. Less than 40 percent, however, agreed with the statement in such economic powerhouse nations as China, Brazil, and Germany.[15] The fact remains that business executives in many countries, including the United States, recognize the need to harmonize economic and noneconomic responsibilities in the modern corporation. This is a global debate!

Corporate responsibility remains a *challenge* to business and executives to do good, to do well, and to do the "right thing" in the "right way." It is a normative challenge, arguing that corporations *should* be responsible to society as a whole and to the segments of society with which each firm interacts (i.e., its stakeholders). For more than 120 years, the dynamic that has animated the discussion of corporate responsibility is the effort of various segments of the public – employees, consumers, investors, environmentalists – to urge changes in corporate behavior. Whether the cause was to end unsafe practices in the New York garment industry after the Triangle Shirtwaist fire (1911), to organize labor unions in the automobile industry (1930s), to stop the dumping of PCBs into the Hudson River (1960s), to block a nuclear power plant near a fault line in Diablo Canyon, California (1970s), or to protect personal privacy in today's Google/Twitter/Facebook world, the dynamic has always involved conflict and pressure. As the chapters in this book show, corporate responsibility has been a challenge to prevailing ways of doing things decade after decade, producing social conflict that has often been met with resistance, negotiation, dialogue, and, on occasion, agreement. As we read two centuries of business practice in America, it becomes clear that these conflicts have defined both the changing frontier of business practice and the corporate responsibility debate.

Corporate responsibility exists, therefore, as both a dynamic field of business practice and a subject of academic teaching and research. Companies and academics alike study the behavior of firms to identify and assess "best practices" for business innovations. As the challenges of securing and maintaining legitimacy have become greater, imaginative efforts have gone into this work. The empirical view focuses on the actual practices of modern corporations. Many businesses behave with a demonstrated awareness of their responsibilities, and manifest a willingness to address those responsibilities through a wide range of internal and external policies, programs, and actions. Throughout this book we identify noteworthy patterns of practice and trace their evolution over time. In this regard, we take the position that "corporations *are* what they *do*."[16]

There is no single job category that encompasses all aspects of corporate responsibility as a field of business practice. In one sense, every employee shares in a corporation's responsibilities. But there are certain subfields of management that do much of the work that relates to what we refer to as "corporate responsibility decisions." Environmental health and safety managers, for example, are often responsible for issues involving sustainability, resource conservation, and industrial health practices. Community relations managers deal with the firm's interface on community development, philanthropy, and local relationships. Human resources is often the focal point for matters related to the workforce, including compensation, benefits, equal opportunity, and diversity. Consumer affairs, supplier relations, and other staff functions are often closely aligned with various stakeholder communities, providing a window onto the expectations of those constituencies. Public affairs managers, issues managers, and communications staff deal with the company's reputation, image, and interaction with local, state, and federal government agencies and officials. Naturally, top management – especially the CEO – and the board of directors are responsible for overall policy direction and special issues involving corporate governance, accountability, and ethics.

One indicator of the acceptance of these ideas is the extent to which they are received and embraced by practitioners, including consultants and academic advisors. Indeed, the growth of the consulting and advisory firms is one of the traceable signs of how management ideas spread in the modern economy. The professionalization of management has been underway for more than 100 years in the United States, dating to the founding of the Wharton School in 1881, and the Harvard Business School in the early 1900s. Ethics, integrity, and responsibility have been themes in the education process over many decades. In a popular book of the 1970s called *The Concept of Corporate Strategy*, Harvard professor Kenneth R. Andrews wrote, "The established corporation has become an institution in society governed by moral as well as economic values. Its strategists need moral as well as economic motives and competence." He added, "The corporate strategy governing their approach to future success in competition includes combining personal and moral aspirations with the choice of products and services to be provided to markets at levels of quality and value that reflect both ethical and economic intent."[17] Forty years later, in 2011, Harvard Business School offered an executive education program built around the idea of the *alignment* of *business strategy* with *corporate social responsibility* (*CSR*). As an HBS faculty member explained, it is important to "eliminate the artificial and unhelpful analytical distinction between shareholders and stakeholders. The former are simply one particular type of stakeholder, and all stakeholders have convergent and compelling interests to varying degrees."[18]