Toward Improving Corporate Social Performance

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We need to ask the right question to solve the mystery of creating the good society.

Issues of corporate social responsibility have been debated in the U.S. for decades, but there is still no commonly accepted answer to the question, "To whom is the corporation responsible?" I submit that we haven't answered this question because it is not the right question to ask. Instead, we should be asking, "How can and do corporations contribute to constructing 'the good society'?" This question itself must be answered in the context of a discussion on corporate social performance—the outcomes of corporate behavior. Furthermore, we cannot have such a discussion productively until we change our collective thinking on several key points of language and perception.

Because my argument is somewhat complicated, I will lay out the main points here:

1. Neither the old term "business in society" nor the newer term "business and society" properly expresses modern business-society relationships. "Corporate social performance" is a more comprehensive and descriptive term.
2. Contrary to much current thinking, we need not choose between the demands of economics and the demands of ethics; nor is ethics something that is tacked onto economics, as in the phrase "economics and ethics." Economics *is* ethics, though ethics is more than economics.
3. The cultural relativity of ethics and social control does not free us from the responsibilities of our own cultures.
4. Responsibility, as defined by ethics and enforced by social control, is what makes people and organizations free.
5. Free people (and organizations) choose; they are not coerced.

If we can change our thinking on these points, we may be able to stop asking so many tangled questions about responsibility, and start asking more concrete questions about outcomes: Who is harmed and who benefits from corporate actions? Is it right or just that these harms and benefits should occur? What can be done to reduce the harms and increase the benefits of corporate behaviors? Then we shall move closer to answering the question of corporate social responsibility, and in the process move also toward "the good society" and a better world.

FROM BUSINESS AND SOCIETY TO CORPORATE SOCIAL PERFORMANCE

In 1979 economist Robert Lekachman gave a speech at the university where I was teaching. He spoke about business's responsibility for creating grave social problems—poverty, pollution, unsafe products, and more—and he offered a ringing phrase in defense of social regulation: "The bills of corporate capitalism," he said, "are coming due." Eager to speak with him, I cornered him after the lecture, telling him that I had just accepted a new job as professor of business and society, and wasn't that a promising area for teaching managers about their social responsibilities? "Ah, yes!" he said, smiling, harpooning my new status with quiet irony, "Business AND Society!" After a dozen years, I am beginning to understand him, and to go beyond. Lekachman's lifework was concerned with issues of "business *in* society." In the last few decades, however, he watched a new field of study arise, called "business *and* society," where everything was up for grabs, including the rights and responsibilities of both business and government. Those little connecting words connote huge differences in meaning.

Business in Society

This concept, as used by functionalist theorists, views business as a subsidiary of society, created to serve economic functions in an institutional division of labor that, if left to operate unimpeded, results in societal stability and well-being. Aligning with capitalist/free market economic views, functionalism sees regulation as an appropriate tool of government but favors regulation guaranteeing competitive conditions, rather than regulation designed to achieve specific social objectives. As used by conflict theorists, who emphasize politics and competition rather than social stability, business-in-society has a different flavor in that business, if left to its own devices, is believed to operate for its own benefit and not that of society. Therefore, business must be extensively regulated by government, society's agent, to make sure specific social needs and expectations are met.

In both functionalist and conflict views, the corporation is responsible to society. We can argue, as these two theoretical camps do, about who represents society, what are society's interests, what are the relative weights of corporate and societal interests, and so on. But figuratively speaking, the chain of command is clear. Functionally, business is society's servant, its tool of production and distribution. Business legitimacy, then, means that business exists and acts with society's permission and within society's expectations, as defined through public policy processes.

Business and Society

On the other hand, when we use this newer phrase, the figurative chain of command is not clear. The problem is represented in Preston and Post's (1975) popular concept of "interpenetrating systems," in which every business organization is seen as an autonomous system, interacting with the societal macrosystem but neither completely controlling nor being controlled by it. This view permits business to be seen as a collection of independent actors, acting for themselves, with no permission needed from any other entity, but with certain interests in abiding by the expectations of society and stakeholders. In such a framework, the concepts of legitimacy and responsibility lose their anchors. Regulation can be seen either as an illegitimate interference with orporate autonomy, or as a strategic tool for obtaining corporate objectives, or both, depending on the context.

Lekachman apparently believed, as most conflict theorists would, that the field of business and society existed to apologize for, cover up, tinker with, and ultimately justify business's desire for autonomy from societal expectations and governmental control. Indeed, when I finally saw the difference between business-in-society and business-and-society, I tried to rethink my field using the former term. But it didn't work. Business is not merely responsible to society as its lackey, as both business-in-society camps would have it. Nor is business an independent system, able to choose when and how to give its allegiance, as is suggested by the phrase business-and-society. The idea of "business in society" has become obsolete as new understandings of economic and social relationships have developed, and as the global economy has emerged. The idea of "business and society," on the other hand, gives unrealistic weight to business autonomy while also not acknowledging the global interconnectedness of the business environment.

Amid all this conceptual confusion we ask, "To whom is the corporation responsible?"—some fearing, and some hoping, that the answer is "To no one." I propose that we cannot learn the answer without first understanding more about corporate social performance—the outcomes of corporate behavior.

Corporate Social Performance

There has been a fair amount of confusion about the meaning of corporate social performance (CSP). It has been equated with corporate image; responsiveness to social demands (which often means corporate political action or public affairs); community relations and charitable giving; absence of law-breaking behavior; existence of a code of ethics or of something termed "corporate social policy"; executives' good intentions, particularly in handling a crisis; or anything else that suits the user's purposes. The term "performance," however, very clearly refers to the *outcomes* of behavior (Wartick and Cochran 1985; Wood forthcoming)—not to images, motivations, processes, or organizational structures.

In the 1970s, when business-and-society academics were working hard to define corporate social responsibility, their attention focused very much on the outcomes of business behavior, particularly the negative ones. The business-and-society field was driven by social problems such as hazardous working conditions, unsafe products, environmental pollution, fraudulent advertising, and employment inequities. There was a flurry of activity in corporate social reporting as a way of both assessing CSP and providing reliable information to external constituencies. Books and articles were published, methodologies for assessing corporate social performance began to be developed, and some firms actually underwent the assessment process. In several European countries, various aspects of social reporting became legal requirements rather than voluntary actions. By the beginning of the 1980s, however, social reporting in the U.S. was dead as a doornail. Why? To be sure, there were serious arguments about what was to be measured, how measures were to be taken, whose values were to be represented, and what could be left out. Without denying the validity of these arguments, it is likely that Bill Frederick (1978) was right when he said that U.S. executives saw social reporting as just another way to flog business for its social sins. The social reporting movement, as well as systematic attention to corporate social performance, was killed by business's fear and lack of cooperation.

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Scholarly attention switched to "corporate social responsiveness," with a focus on internal management processes and on external environmental management techniques that made thinking about responsibility or performance seem outdated. However, if we accept the idea that responsibility is linked to performance, and that performance is outcome-oriented, there is hardly any way to avoid raising again the central issue of corporate social reporting—that is, the monitoring, assessment, and improvement of business's impacts on people, communities, societies, and transnational environments. But making progress on issues of corporate social performance requires that we clear out some cobwebs and reconceptualize several key ideas that underlie much of the thinking in business and society.

SOME BARRIERS TO IMPROVING CORPORATE SOCIAL PERFORMANCE

Improving corporate social performance, as I see it, means altering corporate behavior to produce fewer harms and more beneficial outcomes for societies and their people. There are some perceptual and definitional barriers to achieving this goal, however. Four of these barriers are identified and discussed here.

The Conceptual Separation of Economics and Ethics

Questions of responsibility are ethical questions, concerning norms about how people should treat each other and how the good society is to be achieved. Although such questions have been intimately tied to economic activity throughout most of human history, in the era of industrialization ethics and economics appeared to detach from each other. Business people were thought to be economic, self-interested actors. Meeting their social responsibilities was by definition the same as meeting their economic responsibilities for generating the most wealth possible, making maximum efficient use of the earth's resources, and thereby producing the greatest good for the greatest number of people. All these ethical and economic riches were hypothesized by the neoclassical economics of Adam Smith—whose intellectual parent, by the way, was the ethical doctrine of utilitarianism. Wealth creation, the primary function of business, was seen as the way to the good society.

BUT . . . in the first place, neoclassical economics turned out to be an "IF" doctrine: IF there are no costs of production not reflected in price . . . IF competition is perfectly free . . . IF information is full, accurate and readily available . . . IF there are no political exigencies such as legal guarantees of state control over certain aspects of institutional life . . . IF there are no unresolved concerns for human rights or social justice . . . IF, IF, IF. When I was growing up, the older folks liked to say to children having flights of fancy, "IF the frog had wings, it wouldn't bump its rump on the ground." Well, the frog doesn't have wings, and neoclassical economics bumped its rump on the social, political, and yes, economic realities of human society.

In the second place, economics is not the same thing as business. Economics is a collection of *theories* about how goods and services are produced and distributed and what that does for society. Business, on the other hand, is a collection of *people* and their organizations who, among other things, produce and distribute goods and services. Because it is about what people want and do, economics is and always has been a moral discipline, a set of views and hypotheses about how to create the good society. As a moral discipline, economics is subject to debate about the values that should, and shall, underlie its analyses, conclusions, and uses.

Economics is not only about production, prices, income, wealth creation, and so on; it is about what people believe has to happen to achieve a better life, better opportunities, and better human outcomes. Neoclassical economics vested the responsibility for creating the good society in the self-interested actions of business. But this burden is clearly too large for business alone to bear. Modern corporate social performance theory, in contrast, attempts to recapture the responsibilities of all citizens and organizations to contribute to building the good society.

I propose we stop arguing about *whether* economics and ethics are related. This argument does not contribute to cleaning up the environment, raising the standard of living of the world's population, or creating just societies. Let us simply accept that the two concepts are flip sides of a coin. Then we can move on to more interesting, productive, and difficult discussions, such as how to deal with the cultural relativity of ethics and the tension between ethics and other means of social control; how to move toward a mature definition of corporate social responsibility; and how to impose a language of choice, rather than of coercion, on our discussions about corporate social responsibility, ethics, and performance.

Ethics and the Problems of Social Control

Once we accept the interconnectedness of economics and ethics, another barrier to improving corporate social performance appears: Which standards of performance—which ethical values—should apply, and how should they be enforced?

These are twin questions, both grounded in business-in-society assumptions. Ethics are norms concerning human relationships, and social control mechanisms are society's means of enforcing those norms, among others. The concepts of corporate social responsibility and performance are based on the notion that companies are obligated to abide by the norms and values of society. These norms and values are often codified into law and public policy, with the state authorized to act as society's formal agent of social control. The relationship between ethics and social control, however, and its role in determining corporate responsibilities and standards for CSP, has been confused by a number of problems arising from the changing business environment.

Social control and government regulation. The first problem is that the social control of business, a generic sociological concept, has come to be equated with government regulation, a specific political reality. The 1970s business-and-society emphasis on the social harms caused by U.S. businesses reflected a societal concern that business's power was exceeding its mandate. One result was a strong public policy shift away from guaranteeing certain conditions of competition, toward protecting corporate stakeholders—consumers, employees, investors, and so on. The reaction of business leaders, naturally enough, was to reiterate the argument about the separateness of economics (their domain) and ethics (not their domain), and to strengthen their ability to be effective political actors—that is, to get what they wanted from government.

These events had an unfortunate consequence in that social control, being equated with government regulation, came to be seen as an illegitimate interference with business autonomy. Social control, however, is a concept referring to the various ways society governs its members' behavior, including external mechanisms such as law and regulation, peer group approval or disapproval, or material or symbolic rewards offered by organizations, and internal mechanisms such as conscience and ethical awareness. The inaccurate equation of social control with government control left business free to ignore these other mechanisms of social control that shape human and organizational behavior and that are themselves subject to change. It also led business to spend enormous energy in fighting with government rather than investing in performance improvements.

The cultural basis of ethics. A second problem is that if we really mean to say that companies are obligated to abide by societal values, we must be prepared to go all the way, grounding corporate social responsibility completely in societal values. If we really don't mean it, then we need to decide which of our own values we are prepared to defend as universal and abide by in our worldwide transactions, whatever the result. In the first case, we must be able to say that companies in communist states are obligated to provide all personnel information to the government; companies in the Middle East are obligated not to hire women; companies in South Africa are (were) obligated to enslave black workers; companies operating in Nazi Germany were obligated to produce poison for the gas chambers; companies operating in Libya (replace with any other relevant nation) are obligated to help the government acquire nuclear weapons. In the second case, we must examine these distasteful possibilities to surface those values we are willing to uphold.

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One cannot get out of this dilemma by saying, "Well, some societies hold immoral values." It seems that we are either cultural relativists, accepting in large measure the validity of all value systems, or cultural imperialists, exporting our own values because we believe they are the best. Ethicists sometimes try to avoid this problem by declaring that certain human rights are universal. They overlook, however, the fact that cultures have different definitions of what constitutes a human being, and that therefore other cultures may not agree with us about *who* is entitled to human rights. Impaled on these horns, we are unable to find a proper ground for making ethical decisions in the international arena. International managers are left either to hesitantly make decisions based on their own moral beliefs, imposing ethical tyranny through their autonomous choices, or to gratefully avoid the issue of morality altogether as though economics and ethics could be considered, after all, separate.

Multinational social control. A third problem is that the shift from single-country corporate operations to international operations, with multisourcing and global markets, renders moot the question of state control for those companies for whom it most matters. Management scholars have been asking, puzzled, for quite some time: Who governs the multinational corporation? The answer is not complicated: It governs itself. Nation-states are incapable of fully governing business entities that legitimately extend beyond their borders. At best they can govern some small aspects of a company's behavior or performance within their national boundaries. Unless a true world government emerges, multinational corporations will not be governed by the state.

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A current alternative to ineffective single-state control or nonexistent international government control of business appears to be the negotiation of bilateral and multilateral agreements among nations to work out rules for dealing with common—and commons—issues that involve business activities. Thus, groups of countries agree on regulations, for example, governing the use and disposal of ozone-depleting CFCs, transport of toxic wastes, use of space for communications satellites, arms control, and so on.

Such quasi-international government regulation, however, is only partly effective in controlling the socially harmful results of business behavior. Problems of monitoring and enforcement are tremendous, and there are always countries that will neither participate in the pact nor abide by its content. It is time-consuming to negotiate every issue, and thus many issues will never reach the table. And so many political variables enter into such negotiations that the common good may not be served at all.

In response to these problems, I propose, first, that we abandon the idea that social control is an undesirable force. Social control is both a necessity and a fact of social life. It means, in the business context, the set of incentives and inhibitors existing with respect to business behavior. It exists in intrapersonal, interpersonal, organizational, and interorganizational forms, as well as the more commonly known institutional form of government control of business. Social control, in "the good society," is the dividing line between my rights and yours. Once we recognize that social control is necessary and desirable, we can spend more of our energies making sure that the social controls we establish and use are consistent with our ideas of what the good society should be.

Second, I propose we stop worrying so much about which of the world's ethical systems is the best, or whether we are being cultural imperialists. It is presumptuous and unproductive to take upon ourselves the task of universal moral judgment. We are neither qualified nor entitled to tackle this job.

But there are two things we can and should do. First, we should worry more about whether our own houses are in order. The existence of multiple ethical codes does not release us from the obligations of the code we believe to be right; nor does it save us from the responsibility of constantly examining and testing those things we believe to be right. Fisher and Ury, in their book *Getting to Yes* (1983), recommend asking, when faced with intransigent demands, "What is your principle?" The idea is to surface the assumption, or the broad generalization, on which the demand is based, or to show that there is no such principle and that the demand is therefore unjustified. We can be comfortable with asking "What's your principle?" on ethical questions as well as on substantive negotiations, engaging each other in an ongoing dialogue of ethics in common language and daily circumstances.

Second, we should worry more about designing, testing, and revising mechanisms to resolve those clashes of culture and ethics that arise again and again in international business. World government is not necessarily the most desirable future, but bilateral and multilateral treaties are not solving global problems. Better training in intercultural management, more research on comparative definitions of corporate social responsibility and performance, more attention to collaborative social problem solving, less aggressive posturing, and more listening would all be steps in the right direction.

A Restrictive, Unpleasant Definition of Corporate Social Responsibility

In the 1960s, business-and-society scholars focused much attention on the harms of corporate irresponsibility—the mutilated babies of thalidomide, the blind and disfigured victims of chemical accidents, the workers crushed in poorly designed machinery. The message, from a business-in-society perspective, was clear and undeniable: Corporate social irresponsibility hurts! Individuals suffer unnecessary harms; society itself suffers from the mistrust and antagonism generated by those harms. Corporate social responsibility, then, came to be thought of as the absence of harm-causing corporate behavior—or, as Davis (1973) put it, avoidance of the abuse of business power.

The resulting "social" regulation gave rise to a new focus on harms to companies themselves, as they endured the costs of regulation, product recalls, pollution control equipment, extensive public relations campaigns to repair a damaged reputation, or social problem solving efforts such as employee health programs or training for unemployed youth. The message was clear, though perhaps arguable, and was certainly consistent with a business-and-society perspective: Corporate social responsibility hurts! Business-and-society attention accordingly shifted away from responsibility, with its focus on ethics and obligations, toward responsiveness, with its focus on political action and public affairs and its loss of ethical content.

These two manifestations of the idea of corporate social responsibility as pain and suffering were built upon an inappropriate comparison between the suffering of victims and the suffering of corporate stockholders whose companies caused the harms. Further, an adversarial framework was established in which corporate social responsibility seemed to be a "liberal" concept of giving something away, pitted against a functional conservatism that equated responsibility with maximum profit. This framework is far too restrictive. The idea that corporate social responsibility could be an affirmative duty to work toward a better society, or that it can be a pleasurable and rewarding venture, or that it might justifiably result in profit making, or that some profits are better not made, cannot be rationally discussed and assessed within this framework. Instead, business *and* society appear to be locked forever in the boxing ring of public policy, trading the champ's title back and forth.

As long as corporate social responsibility is considered to be about pain and suffering, the discussion will be dominated by an undercurrent of seeking the opposite experiences—pleasure and happiness. The injured victim will rightly seek the pleasure of legal retribution and government regulatory protection. The company wounded by regulation will understandably seek the pleasure of passing costs along to consumers and the happiness of "friendlier" government relations. Seeking pleasure and avoiding pain is at once the most basic and most animal-like of human behavioral principles. When we insist on thinking of corporate social responsibility as a variant of the pain-pleasure principle, however, we all leave ourselves open, like Pavlov's dogs, to manipulation by ourselves or others. Business executives can be manipulated into thinking that a public affairs office or a youth training program or a better corporate image is somehow going to translate into good overall corporate social performance. The public can be manipulated into thinking that regulations really offer them full protection and absolve them of responsibility for making decisions on their own. Academic researchers can be manipulated into thinking they should never say anything painful if they want to be heard.

Overall, responsibility is not about the child's moral conceptions of pleasure and pain, with their inevitable overtones of parents and punishment, but about freedom and mature relationships. Immature actors require external agents of social control to prevent them from causing harm to others. Mature actors do not require such extensive external control, because they have internalized behavioral norms and control their own behavior more readily. At the societal level, controlling harm is a minimum condition for a good society. Generating and supporting norms of affirmative, good, and positive action reflects a higher-order ethical dictate and, perhaps, progress along the road to that good society.

I propose we stop thinking about corporate social responsibility as a pain-and-suffering concept, and accept it as a concept of freedom and maturity. In a society that values freedom, people who take responsibility for their actions can exercise freedom of choice; those who wish to have freedom must earn it through being responsible. We help our children move toward maturity by teaching them to balance freedom and responsibility. The same argument is made with respect to corporations: The right to exercise free choice is necessarily accompanied by the responsibility to accept the consequences of choosing. Coercive relationships are never mature ones, whether at interpersonal, interorganizational, societal, or global levels.

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The Language of Coercion

We have grown accustomed to hearing and using a language of coercion in talking about business-society relationships. Congress is "forced" to support harmful industries because of the jobs and wealth they create. Businesses are "forced" to pollute the environment to keep up with their competitors. Employees are "forced" to perform various unethical acts or lose their promotions or jobs. In using these terms so cavalierly, we cheapen them and give ourselves excuses for not acting as we believe is right, and for not examining why we believe certain things are right. The consequences of force and coercion—which are accurately defined as physical violence or harm—have become confused with any negative or undesired consequences. Thus, if we are "forced" to accept some painful or unwished-for result, we perversely think we have a reason to act so as to avoid that result. Using this language of coercion, we give ourselves permission to act on an ethics of pain and pleasure rather than right and wrong. This may make our individual and organizational paths easier, some of the time, but it does not move us toward creating the good society.

I propose we abandon our use of the language of coercion unless it is really applicable, unless we are really talking about force and violence. Instead, we can substitute the language of choice, the language of freedom and mature relationship. I'd like to make this suggestion at several levels.

First, at the individual level, let us stop talking so much about the coercive aspects of bad ethical choices—how employees were forced to falsify the data, to alter the books, to substitute chemicals for apple juice, or to require unprotected workers to clean vats of cyanide. Losing a promotion, a raise, or even a job is a shock, but not a tragedy; it is normally not equivalent to losing a leg, a lung, or a life. Let's speak instead of our ability to choose among alternatives. A robber with a gun "forces" me to hand over my wallet, but a boss withholding a promotion, or even my continued employment, presents me with a choice I must make.

Second, at the corporate level, let us stop talking so much about the "economic" or "strategic" imperatives that "force" firms to do business in conditions their leaders may personally consider unethical. Losing a market or refusing a product is not the same as corporate suicide; there are other markets, other products, other avenues to explore. Why do we permit strategic decisions—"What should we be doing in the next few years?"—to be carried out in the absence of enterprise-level analysis—"What business should we be in? Should we be in this business? Should we be in this country? Should we be marketing these products?"

Third, at the societal level, let us stop agonizing so much about the macroeconomic consequences of eliminating government support for certain industries, despite common knowledge that their products are literally deadly. Such a focus "forces" governments to support industries that perhaps on balance are not operating to create the good society. In modern history, public policy has commonly been used as a tool for achieving a variety of economic, political, and social ends, for supporting some industries and discouraging others. There is no compelling reason, therefore, for society to continue to support deadly industries with financial subsidies and legal protections. Public policy could just as well orient itself toward providing incentives toward restructuring and reallocating the productive capacity of such industries.

Messengers as diverse as the Club of Rome, Dr. Seuss, Garrett Hardin, the Brundtland Commission, and many others, in many forums, have delivered a vital message over the past several decades. The earth is a commons, with finite resources and finite capacities for self-cleansing. We, its people, and the organizations we create are the earth's beneficiaries, executioners, and guardians. We create—and we suffer from—pollution, inequality, poverty, war, and crime. We alone can solve these problems and move toward "the good society" for all the earth's people. In this global context, corporate social performance assumes a significance that goes far beyond issues of managerial autonomy, organizational survival, or the social control of business.

The proposals I have made here will certainly not settle all our arguments about corporate social responsibility and performance, but they would permit us to engage in more productive discussions about what is, what should be, and how we get from one to the other. We must clear away the perceptual cobwebs of economics-versus-ethics, ethics-versus-social-control, and social responsibility as pain-and-suffering. We must abandon the poor excuses for inaction offered by the cultural relativity of ethics and the language of coercion. Then we can truly discuss how to improve corporate social performance, and start doing it better. ❐

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