THE CASE FOR CORPORATE SOCIAL RESPONSIBILITY

Henry Mintzberg

In an economy of giant, divisionalized corporations, corporate social responsibility is almost impossible to achieve. Yet, the author contends, corporations must achieve it if our society and economy are to continue and to flourish.

The concept of social responsibility—once known as "noblesse oblige" (literally nobility obliges)—has experienced a vigorous resurgence since the 1950s. As Elbing [19:79] notes, citing references in each case, the concept has been discussed academically by professors, pragmatically by businessmen, politically by public representatives; it has been approached philosophically, biologically, psychologically, sociologically, economically, even aesthetically.

The cynic attributes this resurgence to what he sees as the illegitimate power base of the large, widely held corporation: Social responsibility is a smokescreen to divert attention from the disappearance of direct shareholder control (and some forms of market control as well). The "professional" manager—the individual who moved into that power vacuum left by the departing shareholders—sees social responsibility as a form of natural enlightenment, a reflection of the coming of age of the corporation, if you like. These two positions are, in fact, far less divergent than they seem: each tilts its own way based on similar premises. As Drucker puts the latter case, "to have a society of organizations with autonomous managements [later 'self-governing' institutions], each a decision-maker in its own sphere, requires that managers, while private, also know themselves to be public" [18:810-811]. Milton Friedman begins with a similar premise—that social responsibility reflects a shifting of power into the hands of people less subject to traditional forms of control—but concludes, as a result, that it is a "fundamentally subversive doctrine" [22:126].

Thus sits social responsibility, in the center, attacked from the left and from the right and supported by those who have the most to gain from the status quo of corporate power. Can social responsibility work? Does it work? Should it work? This article summarizes some of the overwhelming evidence that it can't, doesn't, and shouldn't, and then concludes that it must.

Forms of Social Responsibility

In its purest form, social responsibility is supported for its own sake because that is the noble way for corporations to behave. This leads to a posture Sethi [38] has called "social responsiveness"—anticipating and preventing social problems as opposed to keeping up with them (his use of the term "social responsibility"), or doing the bare minimum ("social obligation"). Carried to its logical extreme—what Drucker has called "unlimited social responsibility" [18:349]—social responsiveness postulates that "only business can do it"; in the words of George Cabot Lodge, "Business, it is said, is engaged in a war with the evils of our time, a war it must win" [29:185].

Henry Mintzberg is Professor, Faculty of Management, McGill University, Montreal, Canada.

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Enlightened Self-Interest

Less pure are the postures that reflect self-interest of one sort or another that social responsibility pays. These are sometimes referred to as "enlightened self-interest," although, as we shall see, some are less enlightened than others. One broad argument postulates that the business community as a whole will benefit from socially responsible behavior. For example, "crime will decrease with the consequence that less money will be spent to protect property, and less taxes will have to be paid to support police forces. The arguments can be extended in all directions showing that a better society produces a better environment for business" [16:313]. Others make the same case for the individual behaviors of individual firms. "Treat your employees well, get them involved, and you will make more money," we were told by a generation of industrial psychologists in the 1960s (e.g., [28]). Subsequent evidence (e.g., [20:7]) silenced these particular voices, but others appeared in their place about a host of other behaviors.

Sound Investment Theory

The argument that social responsibility is a sound investment has been developed most fully and literally by Edward Bowman of MIT. In a paper entitled "Corporate Social Responsibility and the Investor" [7], he proposes the hypothesis that through the effect of a "neo-invisible hand," the market price of a company's stock is affected by its social behavior. He attacks two "myths" in his paper that "corporate social responsibility is dependent on either the noblesse oblige of the manager or the laws of the government," and that "corporate social responsibility is in fundamental conflict with investor interests" [7:42]. Sometimes a company must pay directly for behavior perceived as irresponsible; Bowman cites the case of the Dutch firm struck by unions all over Europe because of the disruptive local effects of shutting down one plant.

But Bowman's broader argument is that the stock market responds to the social behavior of the corporation, in terms of the market price of its stock, which affects its cost of capital and its earnings. To support this case, Bowman argues that many institutional investors view firms that are not socially responsible as riskier investments; also that churches, universities, and the like, as well as the "clean" mutual funds, by paying attention to corporate social behavior, influence the market for a corporation's stock. Furthermore, to the extent that investment portfolios are diversified, actions by individual corporations, which benefit the corporate sector as a whole—for example, by improving the environment—also benefit the individual investor (an argument Bowman draws from Wallich and McGowan [42]).

The enlighted self-interest argument is certainly not new; its orientation has simply changed. In an earlier era, the point was religious and personal: "Be good or you will go to hell"—literally! Responsible behavior paid off, if not in this life, at least in the next. Today the case is made in economic terms (during this life), although it remains fundamentally the same. The gates of the treasury in this world, if not those of the heavens in the next, will open to those who are socially responsible. What has remained the same is the premise that one behaves responsibly not because of ethics—because that is the "proper" way to behave—but because it is to one's advantage to do so.

Avoiding Interference

A final argument from the perspective of self-interest is not economic but political, and it emerges as less "enlightened" than the others. We can call it the "them" argument. "If we're not good, they will move in"—Ralph Nader, the government, whoever. The problem with this perspective is that it tends to encourage rhetoric, not action. Typical of it is the report of the fifty-fourth meeting of the American Assembly [4], a gathering of an impressive group of friends of the large corporation. Introducing the "them" argument—"if private initiatives fail, the issues of corporate governance are important enough that government will have to address them" [4:5]—the report in a series of recommendations comes down solidly and repeatedly for social responsibility in general, the status quo in particular. For example, "employees should be regarded as a crucial part of the constituency of the corporation" but their "interests will be better served by various means, such as collective bargaining, direct communications, and participative management approaches rather than by direct employee representation on boards of directors" [4:6].

Competition or greed causes some to depart from the rules, forcing others to follow suit.

To conclude, it should be noted that many of the self-interest arguments, by trying to make a case for social responsibility, in fact make a stronger one for other controls on the corporation—pressure campaigns from special interest groups, perhaps regulations from government. For Bowman, or those worried about

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"them," responsibility is a sound investment because pressure groups make it so. Only in its purest form—as an ethical position—can corporate social responsibility stand by itself.

Attacks on Social Responsibility

Social responsibility, as noted, has been subjected to attacks from the left as well as from the right (sometimes on the same grounds, as we shall see). Some of these attacks are based on the corporation's unwillingness to act responsibly; others on its inability to do so; still others on the lack of justification for it so doing. Let us look at some of these in turn.

Rhetoric, Not Action

The most elementary attack comes from those who simply do not trust the corporation. They view all of the talk of social responsibility as a giant public relations campaign. The head can pronounce; the hands do not necessarily respond. Thus, Cheit refers to the "Gospel of Social Responsibility," "designed to justify the power of managers over an ownerless system": "[M]anagers must *say* that they are responsible, because they are *not*" [14: 165,172]. And Chamberlain writes, "The most common corporate response to criticism of a deficient sense of social responsibility has been an augmented program of public relations" [13:9].

Lack of Personal Capabilities

Another, more far-reaching attack is that by the very nature of their training and experience, businessmen are ill-equipped to deal with social issues. Theodore Levitt argues, for example, that the typical senior executive of the large corporation is there because he is an expert on his own business, not on social issues. By having had to devote so much time to learning his business, "he has automatically insulated himself from the world around him" [27:85], denying himself the knowledge and skills needed to deal with social issues. Others make a related case by claiming that the orientation of business organizations toward efficiency and control renders their leaders inept at handling complex social problems, which require flexibility and political finesse. Harrington writes, for example, that "what cities need are 'uneconomic' allocations of resources. . . . Businessmen, even at their most idealistic, are not prepared to act in a systematically unbusinesslike way" [quoted in 1:414].

Corporation's Structure Precludes Social Responsibility

Perhaps most devastating of all, the third attack claims that social responsibility is not possible in the large corporation, given the nature of its environment, structure, and control systems. Appropriate or not, social responsibility, it is claimed, simply cannot and does not work. Proponents of social responsibility are dismissed as naive: Corporations, by the nature of their activities, create the social problems. How can they solve them?

> If we all understood the basic ground rules of private enterprise a little better, we would realize that the large corporation is not a rain god, and that no amount of prayer or incantation will unleash its power. The spectacle of otherwise sophisticated people going on bended knee to companies and pleading with them to have the kind of conscience and moral sensibilities only rarely found in individuals is nothing less than laughable [24:8].

Others claim that socially responsible behavior is precluded in the economic system we have. Tumin [41], for example, bases his argument on "the principle of least morality," that competition or greed causes some participants to depart from the rules (and the rules of social responsibility, as noted, are vague and not officially enforced in any event), forcing others to follow suit. Business, as a result, "tends to bring out, standardize, and reward the most unsocialized impulses of man" [41:130]. There is a good deal of evidence to back up the cynicism of these commentators, as we shall see. But before we turn to it, let us consider a final and more far-reaching attack on social responsibility.

No Right to Pursue Social Goals

The fourth attack is that the corporation has no right to pursue social goals. Here the left and right join forces to attack the center. Their argument is a simple and appealing one: Corporation managers lack broad public legitimacy; at best they are appointed by private shareholders; more likely they are self-selected. Therefore, they have no right to pursue broad social goals, to impose their interpretation of the public good on society. "Who authorized them to do that?" asks Braybrooke [11:224]. Public functions should not be exercised by private businessmen. They should be left to elected representatives.

Some critics ask what values will be embedded in the "socially responsible" choices of businessmen. How much of business ideology—bigger is better,

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competition is good, material wealth leads to a better society, etc.—will come along with these choices? Others ask to what extent business can be allowed, or expected, to dominate society. In a paper entitled "The Dangers of Social Responsibility," Levitt comments that "its guilt-driven urge" has caused the modern corporation to reshape "not simply the economic but also the institutional, social, cultural, and political topography of society" [26:44]. He sees the continuation of this trend as posing a serious threat to democracy: "business statesmanship may create the corporate equivalent of the unitary state" [26:44]. And then there is the argument that the function of business is economic, not social. Social responsibility (at least in its pure form) means giving away the shareholders' money: It weakens the firm's competitive position, and it dilutes the efforts of its managers, who are supposed to focus on economic productivity [16]. The best known voice here is that of Milton Friedman:

> What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example . . . that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment. . . . Insofar as his actions in accord with his "social responsibility" reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customer's money. Insofar as his actions lower the wages of some employees, he is spending their money [22:33].

To Friedman: "[T]here is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" [22:126; see also 21].

Finally, the most pragmatic critics ask: How are businessmen to determine what is socially responsible? To whom are they responsible: the whole of society? the customers? the industry? the employees? the managers' families? the corporation itself? What happens when responsibility to one means irresponsibility to another? Should profit be given up to help needy customers? How much profit? Is lobbying for a stronger merchant marine—so that it will be available in the event of war—a socially responsible activity on the part of a shipping company? Is resisting government intervention responsible? Clearly, social responsibility involves a host of complex and contradictory needs in a perpetual state of flux. A common result is that sometimes the most well-meaning corporation is attacked for what it truly believed was responsible behavior while the most blatantly selfish act of another corporation, justified in the lofty terms of social responsibility, hardly gets noticed.

Thus, we have the arguments against social responsibility. Businessmen cannot be trusted; they are ill-equipped to deal with social issues; their corporations are not structured to do so; and they have no business even trying to do so. Let them stick to their own business, which is business itself.

The arguments are clear; what about some evidence?

The Evidence on Social Responsibility

Let us begin with some evidence from surveys, and then move toward studies of actual corporate behavior.

Surveys of Corporate Social Responsibility

To test his contention that it pays to be good, Bowman teamed up with Haire [8-9], using an interesting research methodology. They performed a line-by-line content analysis of the 1973 annual reports of eighty-two food processing companies in order to ascertain the percentage of total prose devoted to issues of corporate social responsibility. This figure was then used as a surrogate for actual company concern and activity, which they related to company performance.[1] Bowman and Haire found that those firms with some social responsibility prose performed significantly better than those with none (14.7% return on equity vs. 10.2% over the preceding five years, a difference significant at the 2% level).

But a breakdown of the data provides a more interesting result. As can be seen in Exhibit 1, firms that never mentioned social responsibility exhibited the

[1] The researchers were quick to address the obvious suggestion that arises, "that talk is cheap" [8:50]. They took a list of fourteen companies that had been identified by the editor of *Business & Society* "as being outstandingly responsible firms," and matched each with another firm in the industry, randomly selected, of approximately the same size. A content analysis of the annual reports of the twenty-eight firms found the percentage of prose content on corporate social responsibility to average 4.8 percent for the "premier" firms, 1.7 percent for the "neutral" ones, a difference that was statistically significant at the 2 percent level. The authors also present data comparing the mention of international activity with Standard and Poor's rating of actual international activity, by which they substantiate the use of the prose of the annual report as "a reasonable surrogate for real activity" [9:15].

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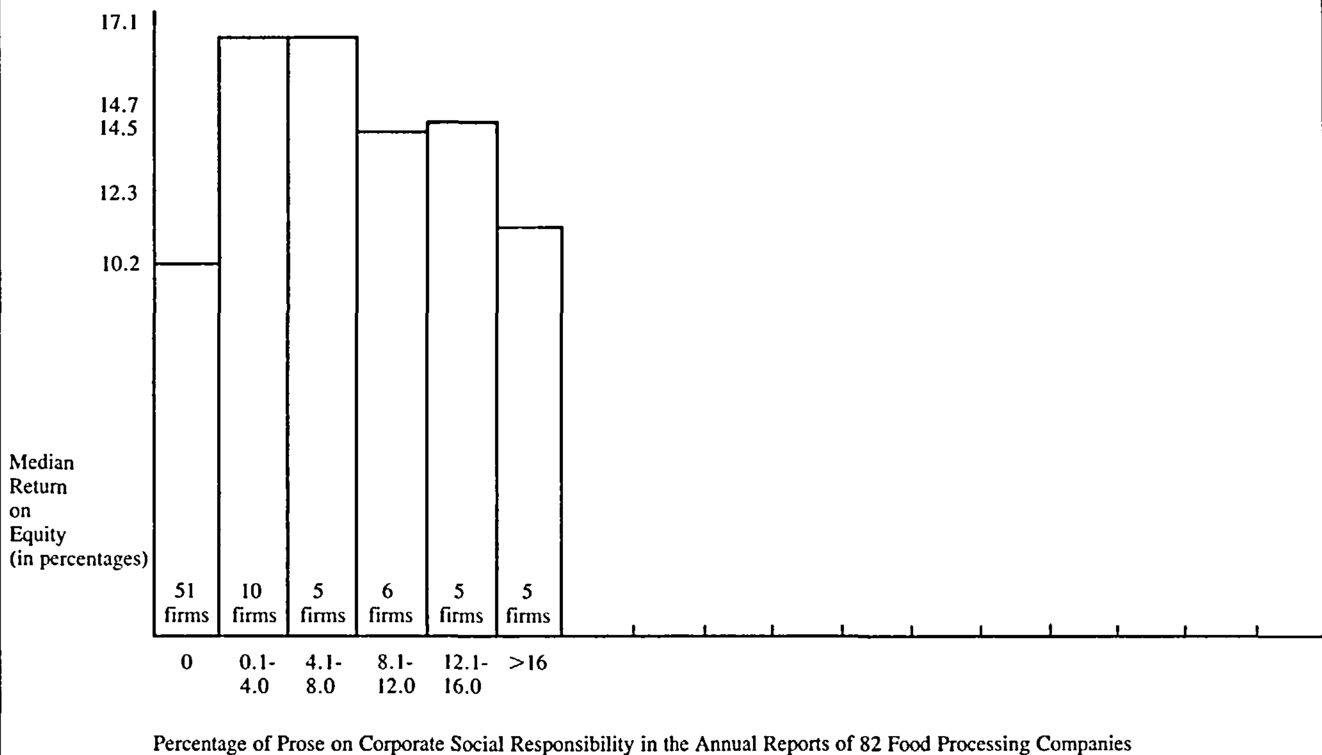
EXHIBIT 1
Prose and Profits*



*Based on figures from the study by Bowman and Haire [8], 1975.

weakest performance, the two groups closest to them (with 0.1% to 8% of the prose of the annual report) performed best, while those with the most prose (more than 16% of that in the annual reports) exhibited performance only slightly better than the first group (12.3% return on equity vs. 10.2%, compared with 17.1% for the second group). In other words, the relationship between the two factors had an inverse U-shape. Note that fifty-one of the eighty-two firms surveyed—almost two thirds—fell into the first category, with no prose at all.[2]

Bowman and Haire conclude with support for Bowman's original contention, qualifying it with the point that the stock market is willing to reward socially responsible behavior only to a point. It pays to be good, but not too good. Another conclusion seems perhaps more warranted, however: Don't stand out from the crowd, do no more than is expected. In Bowman and Haire's own terms, "the mean really is golden" [8:57]. Note that the most profitable firms not only were not the most responsible (by their measure), but were not even in the middle. They were closest to the least responsible (again by their measure—the ones with no prose). And this latter group—the vast majority of firms surveyed—still managed a respectable 10.2 percent return on equity. Shall we accept Bowman and Haire's own measure and conclude that most firms do not care at all about social responsibility yet still remain viable?[3]

[2] Other studies support this conclusion. Bowman and Haire [8] refer to a study of companies ranked on an index of pollution control, in which their own breakdown of the results produced the same asymmetrical inverted U-shaped curve. Dent [17] also found a similar relationship between the propensity of managers to express public service as a goal and the performance of their firms in terms of rate of growth. This relationship could also explain the combined findings of a study by Alexander and Buckholz [3] together with two others that they cite.

[3] This leaves aside the nagging problem of causation. While it seems reasonable to conclude that it costs to be too good, should we also accept that it costs to be bad? It is equally possible that poor economic performers cannot afford social responsibility, at least in the short run. Indeed, might poor performers not tend to act irresponsibly in order to try to catch up? Were these suspicions true, the corporation could inerpret the Bowman and Haire findings in the exact opposite way they intended: It does not pay to be too good, and if one is weak, it may even pay to be bad. Obviously their data say nothing about irresponsible behavior, but the absence of prose in the annual report could just as well mean irresponsible behavior as minimally acceptable behavior. (See Bowman [7] for a discussion of possible forms of causation in this relationship.)

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But taking these authors' central conclusion that the mean is golden, the question becomes: How good is the mean? Surveys of the general population, and especially of corporate managers themselves, give us some idea, and it is not very encouraging. For example, only 15 percent of those polled in a 1977 survey of the general population agreed that "business tries to strike a fair balance between profits and interests of the public" (in 1968, 70% agreed; in 1973, 34%). Asked to choose between social responsibility and regulation, the public came down strongly for the latter [46:14, 16]. In another general poll carried out in 1976, the "honesty and ethical standards" of business executives were rated "very high" by 3 percent of the respondents, "high" by 17 percent, "average" by 58 percent, "low" by 16 percent, and "very low" by 4 percent (2% had no opinion; [23:838]).

Corporate managers have no right to pursue broad social goals, to impose their own interpretation of the public good on society.

Of greater interest, however, are the results of polls of businessmen themselves. In the Gallup poll cited above, the "professional and business" respondents rated their own behavior hardly better than did the public at large: 2 percent, 22 percent, 55 percent, 14 percent, 8 percent, and 1 percent, respectively [23:840]. Other surveys of employees on the social responsibility of their own corporations, however, have been far more discouraging.

Brenner and Molander [12] compared their survey of *Harvard Business Review* readers with a survey carried out fifteen years earlier and concluded: "Respondents are somewhat more cynical about the ethical conduct of their peers than they were [in their previous survey]" [12:59]. (And they hardly lacked cynicism to begin with, despite the finding that "[m]ost respondents . . . have embraced [social responsibility] as a legitimate and achievable goal for business," [12:59].) Close to half the respondents agreed with the statement that "the American business executive tends not to apply the great ethical laws immediately to work. He is preoccupied chiefly with gain" [12:62]. On a question of change in ethical standard over time, 32 percent felt that the standards of 1976 were lower than those of 1951 (and 12% felt considerably lower), while 27 percent felt they were higher (and 5% felt considerably so; 41% felt they were about the same). And only 5 percent listed social responsibility as a factor "influencing ethical standards," whereas 31 percent and 20 percent listed two sets of factors related to pressure campaigns by outside groups, and 10 percent listed government regulation.

On some specific questions, 89 percent of the respondents felt it "acceptable" to pad an expense account by about $1,500 a year if the superior knew about it and said nothing; 55 percent would do nothing in the case of a shady deal between a pilots' association and an insurance company whose board they have just joined (as an inside director; as an outside director, 36% would do nothing); and 58 percent would pay a "consulting fee" to a foreign minister to gain a lucrative contract (although a full 91% believe the average executive would pay, a reflection of the "real magnitude of [the] cynicism," [12:65]). Of the respondents, 43 percent attributed unethical practices to competition, and, more importantly as we shall see, 50 percent to superiors, who "often do not want to know how results are obtained, so long as one achieves the desired outcome" [12:62]. Brenner and Molander believe that two factors most likely explain these results: "ethical standards have declined from what they were or situations that once caused ethical discomfort have become accepted practice" [12:59].

Other studies support these results, especially the ones pertaining to subordinate managers. Collins and Ganotis [15] stress as one of the most significant findings in their survey of attitudes of managers toward social responsibility, "a sense of futility concerning the ability of lower- and middle-level managers to affect corporate social policy and a perhaps related attitude that social goals can best be achieved by individuals working outside their companies. These attitudes were particularly strong among lower-level managers" [15:306].[4] Another survey, of managers within Pitney-Bowes, "a leader in [the] campaign for business ethics . . . reported that they do feel pressure to compromise personal ethics to achieve corporate goals"; similar results were obtained in Uniroyal [31:66]. Even *Business Week* has concluded that "such pressures apparently exist widely in the business world" [quoted in 31:66]. Finally, of the business managers surveyed by J.S. Bowman [10], 64 percent agreed with the statement, "Private managers feel under pressure to compromise personal standards to achieve organizational goals," that belief being "particularly prevalent in middle and lower management levels" [10:50]. And 78 percent agreed with the statement: "I can conceive of a situation where you have good ethics running from top to bottom, but because of pressures from the top to achieve results, persons down the line compromise

[4] More discouraging perhaps, they also found that the young managers experienced the lowest sense of personal responsibility for social problems and the weakest perception of the need for the corporation to involve itself in such problems.

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their beliefs" [10:51].[5] One respondent wrote: "It is not people per se, but rather the structure of large organizations and the ruthless competition in them that develop unethical conduct" [10:51].

The Problem of Structure

Let us take this comment as our point of departure. There can be little doubt that competition from within or without influences the corporation's ability to respond to social needs. (It also provides an excuse not to respond, but that is another matter.) This is the point of Tumin's "principle of least morality." But the results above may be better explained by problems inherent in the actual design of the large corporation. The corporation may be "'trapped' in the business system that it has helped to create" [13:4].

In an important paper, Daniel Bell [5] describes modern industrial society as "a product of two 'new men,' the engineer and the economist, and of the concept which unites them—the concept of efficiency" [5:9]. This concept gave rise to "a distinct mode of life," which Bell calls the "economizing mode"—"the science of the best allocation of scarce resources among competing ends" [5:10]. Economizing means "maximization," "optimization," "least cost." Underlying this was a concept of rationality, specifically "a rationality of *means,* a way of best satisfying a given end." The ends "were seen as multiple or varied, to be freely chosen by the members of society." But "the ends that 'became' given all involved the rising material output of goods. And other, traditional modes of life (the existence of artisan skills and crafts, the family hearth as a site of work) were sacrificed to the new system for the attainment of these economic ends" [5:10]. The new rationality and new goals needed "to be institutionalized in some renewable form of organization. That institution was the corporation" [5:11].

The corporation, in other words, emerged as the rational tool to pursue economic goals. And the key to the functioning of that tool was its structure—specifically what we have elsewhere called machine bureaucracy [32]. The economic goals plugged in at the top filtered down through a rationally designed hierarchy of ends and means, to emerge at the bottom in a form that allowed workers to carry out highly formalized tasks designed according to the precepts of division of labor. These workers were impelled to put aside their personal goals and to do as they were told in return for remuneration. To ensure that they did, the whole system was overlaid with a hierarchy of authority supported by an extensive network of formal controls. And to keep this whole system on its economic track, society created its own controls—a price system, competition, and a stock market that measured results and watched the corporation's well-known bottom line.

Now, what happens when the concept of social responsibility is introduced into all this? The evidence from the surveys cited above suggests an answer: not much. The system is too tight.

In principle, social goals, instead of economic ones, can be plugged in at the top. Or else they can sneak in lower down, as employees ignore the demands of the hierarchy and instead do what they believe is right. But a number of factors work against such social goals. External competition and the pressures to demonstrate economically effective performance are two obvious ones. Internal competition is another. According to Maccoby [30], the pressure to get to the top of the hierarchy favors the "gamesmen" of the corporation, people to whom winning is all important. In Madden's [31] summary, the work of these gamesmen "does little to satisfy or even stimulate what Maccoby calls the 'qualities of the heart': loyalty, a sense of humor, friendliness, compassion. . . . Perhaps the key aspect of Maccoby's study is to note the decline since 1950 of an ideological or ethical basis for actions among the generation of executives born in the 1930s. . . . Winning . . . turns out to be . . . 'the only thing' " [31:68]. And winning is measured in numbers that favor the economic goals over the social ones. To quote Bell, the system "measures only economic goals"; the social goals such as "clean air, beautiful scenery, pure water, sunshine, to say nothing of the imponderables such as ease of meeting friends, satisfaction in work, etc. . . . in our present accounting schemes, priced at zero . . . add nothing to the economist's measure of wealth. Nor, when they disappear, do they show up as subtractions from wealth" [5:14].[6]

Now what happens to the managers lower down, intent on performing in a socially responsible manner, when the numbers plugged in at the top of the system are economic? In fact, what happens from the top when the senior managers themselves try to plug in social goals alongside the economic ones?

Evidence From Research on Corporate Behavior

In an important book entitled *The Social Challenge to Business,* Robert Ackerman [2] addressed these partic-

[5] Corresponding responses for public sector managers were similar but slightly lower.

[6] For an elaboration of the argument that an emphasis on efficiency favors economic goals over social ones, see Mintzberg, "A Note on That Dirty Word 'Efficiency,' " *Interfaces,* Oct. 1982, pp. 101-105 or "Efficiency as a Systems Goal," in [33: Ch. 16].

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ular questions. Ackerman looked at the effects on social responsibility of the divisionalized form—that structure used overwhelmingly by the United States' largest corporations [47,37]. He studied two firms in depth, interviewing managers and specialists at different levels, analyzing documents, and investigating the functioning of their structures.

Ackerman begins with the premise that although some "rascals inhabit the executive suite," most business leaders "would like to avoid doing what they believe to be irresponsible" [2:4]. He then puts the rhetoric of social responsibility aside and concerns himself with behavior.

In the divisionalized form, the divisions are fully responsible for operating their individual businesses, while the headquarters controls them through systems that measure financial performance, thereby relieving itself "of the need to sift through and comprehend operating data from diverse businesses" [2:49]. The division managers are, therefore, assessed in terms of the bottom line; specifically they "are encouraged to pay close attention to the near-term profitability of their units" [2:50]. What happens then when a new social issue comes along? Ackerman finds that it poses three major dilemmas for the corporation:

- Social demands subvert corporate-division relationships;
- Financial control systems are ineffective in explaining and evaluating social responsiveness; and
- The process for evaluating and rewarding managers is not designed to recognize performance in areas of social concern [2:52].

A new social issue—say, concern about bias in hiring minorities—encourages headquarters management to intervene in the decisions of the divisions for two reasons. First, even local issues can have companywide implications (as, for example, when the company's name is identified with a charge of racial discrimination). And second, in a hierarchical organization it is the chief executive who is ultimately held responsible for its actions. But intervention violates the principle of divisional autonomy. And so the headquarters manager falls on the horns of a dilemma. If he hesitates, "it is probable that social responsiveness will lag." The division managers have already made commitments to their short-term financial targets. But if he acts, he will upset the system: "He may diminish the extent to which he can hold the divisions accountable for achieving agreed-upon financial results" [2:54]. In effect, the neat separation of powers designed for economic performance impedes social responsiveness.

Of course, if the costs and benefits of the social issue could be measured, the well-meaning executive at headquarters would simply plug them into the control system. Unfortunately, however, although some of the costs can be measured, typically few of the benefits can. Citing the examples of "reducing noxious emissions into the atmosphere below the levels required by current law," Ackerman concludes that "from the accountant's point of view [the benefits, such as a rosier public image or pride among the managers], have the unfortunate characteristics of being largely intangible, unassignable to the costs of the organizational units creating them and occurring over an indeterminable future time period" [2:55-56].

The stock market is willing to reward social responsibility only to a point. It pays to be good but not too good.

Thus, even the chief executive at headquarters who wishes to incorporate social goals into his control system cannot easily do so. He may sing the praises of social responsibility, but his subordinates march to the tune of economic performance. Ackerman touches the heart of his argument with the following comment: "[T]he financial reporting system may actually inhibit social responsiveness. By focusing on economic performance . . . such a system directs energy and resources to achieving results measured in financial terms. It is the only game in town, so to speak, at least the only one with an official scorecard" [2:56].

To the extent that there is discretion in the system, of course, the division manager may still be able to consider social issues voluntarily. But when the screws of the financial reporting system are forever being tightened—as they are, increasingly, in the contemporary versions of these control systems—most of that discretion can disappear. Joe Bower, a colleague of Ackerman when he was at Harvard Business School, cites a well-known case of this:

> The corporate management of [General Electric before 1961] required its executives to sign the so-called directive 20.5 which explicitly forbade price fixing or any other violation of the antitrust laws. But a very severely managed system of reward and punishment that demanded yearly improvements in earnings, return, and market share, applied indiscriminately to all divisions, yielded a situation which was—at the very least—conducive to collusion in the oligopolistic and mature equipment markets [6:193].

Bower's conclusion seems to make the point of this whole argument precisely:

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> In short, the same forces in a diversified firm that tend to strip away economic fat and social tradition from the management of the enterprise tend also to strip away noneconomic aspects of all issues facing division managements, even those that are not remotely economic in character. The result is that while the planning process of the diversified firm may be highly efficient, there may be a tendency for them to be socially irresponsible [6:193].

What of the ability of the manager lower down not even to act responsibly, but merely to avoid acting irresponsibly? Here too the evidence is discouraging, as we saw in the polls cited earlier. This issue was, in fact, investigated directly by James Waters [45]. Curious about how such things as General Electric's directive 20.5 could go unheeded, Waters studied testimony of various U.S. congressional investigating committees into corporate wrongdoing and interviewed some of the managers involved. He developed his conclusions in terms of seven "organizational blocks"—"aspects of organizations that may get in the way of the natural tendency of people to react against illegal and unethical practices" [45:5]. These blocks include:

Without responsible and ethical people in important places, the society we know and wish to improve will never survive.

- Strong role models, involving the socialization of new employees into existing unethical practices and their identification with those responsible for them;
- Strict lines of command that discourage questioning such practices;
- Task group cohesiveness;
- Ambiguity about priorities, such as the "Catch 20.5" phenomenon that pitted vague social guidelines against specific financial targets;
- Separation of decisions, forcing employees to work in terms of given strategies and in contexts where unethical practices are the norm;
- Division of work, so that employees do not know about unethical practices, ignore them if they do, or are bypassed if they try to resist them; and
- The tendency for firms to avoid investigating their own wrongdoing for fear of public exposure.

This evidence suggests that the problems of social responsibility are inherent in the very conception of the large corporation and in the design of the structure and control systems it uses. Machine bureaucracy and especially the divisionalized form, by their very natures, seem to encourage people to behave in at best socially unresponsive, at worst socially irresponsible, ways. Were social irresponsibility restricted to the fly-by-night operator, it would be highly contained in today's economy. The problem is that it is not: specifically, unethical acts continue to be pinned on the largest and most prestigious of corporations, in the recent past on General Motors, General Electric, Ford, Gulf, Lockheed, ITT, and many others. A recent article in *Fortune* magazine concluded: "[A] surprising number of large firms have been involved in blatant illegalities" [36:57]. Of 1,043 major corporations studied, 117 had been involved in one or more "serious crimes" within the United States during the 1970s—antitrust violations, kickbacks, bribing or illegal rebates, illegal political contributions, fraud, or tax evasion. One recent chairman of the Securities and Exchange Commission wrote: "There has been bribery, influence-peddling, and corruption on a scale I had never dreamed existed." And his words are echoed by another in reference to charges of illegal practices against nine large corporations: "Always there was direct involvement and participation by senior management officials" [quoted in 44:3]. And the president of Cummings Engine received a standing ovation when he told a group of top executives that "we are 'losing our freedoms' not because of the appetite of some monster government, but because we [businessmen] 'have abused our freedoms when we had them'" [44:3]. According to the evidence from the surveys, the problem seems to be getting worse, perhaps in good part because the divisionalized form of structure is becoming more pervasive and its control systems tighter.

But the root of the problem may go deeper than structure, at least if the conclusions of Singer and Wooton are any indication. They analyzed Albert Speer's "administrative genius" as Minister of Armaments and War in Germany's Third Reich. Speer's organization was not a traditional bureaucracy, but an "adaptive, problem-solving temporary organization" that used a "matrix system with project management" and relied on "industrial self-responsibility" and "collegial decisionmaking" [39:82-84], all characteristics of what we have elsewhere described under the label "adhocracy" [32]. Yet all of this—"advanced, participative, and 'humanistic'"—was used "to promote the goals of one of the most inhumane societies in the history of mankind" [32:80]. The implication is that the root of the problem may lie beyond structure, in the very concept of management itself: "It is not that managers are authoritarian themselves; rather . . . it may be that the process of management is authoritarian" [32:100].

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The "professional" manager is a "hired gun," so to speak, concerned with means not ends. But that very distinction may prove to be the problem, depersonalizing relationships and breeding socially irresponsible behavior. Speer said: "The people [who suffered] became abstractions to me, not human beings" [32:82]. The "professional" manager can become encapsulated, insulated from the consequences of his actions; like Speer, he can come to see challenges "as tasks to be performed, as functions to be organized . . . as power to be exercised" [32:82], a description reminiscent of Maccoby's gamesmen (who, by his description, are found in adhocracies). Singer and Wooton's message is that "many managers today are so caught up in the procedural demands of their work that they easily lose sight of the important end results of their activities" [39:98-99].

All in all, the evidence on social responsibility is hardly encouraging. But before we spill away the bathwater, let us take a final look for the baby.

The Indispensability of Corporate Social Responsibility

The baby is indeed there (or at least we had better create one and put it there), for two fundamental reasons. First, the strategic decisions of large organizations inevitably involve social as well as economic consequences, inextricably intertwined (e.g., [35], [34]). That is what renders the arguments of Friedman, and his echoes from the left, so utterly false. The neat distinction between private economic goals and public social goals—the one to be pursued by businessmen, the other by elected leaders—which sounds so good in theory, simply does not hold up in reality. Every time a large corporation makes an important decision—to introduce a new product line, to locate a plant, to close down a division—it generates all kinds of social consequences. Size alone makes economic decisions social. When a plant employing thousands of workers is opened or closed, the impact on a community and on many lives is direct and consequential. As a result, the corporation gets caught in its own web of power. It cannot claim neutrality. Consider the experience of Dow Chemical with the sales of napalm during the Vietnam War. The transaction was economic, but so too was it social. To refuse to sell napalm would have been a political statement, but so too was the decision to sell it [13:189-192]. In other words, there is no such thing as a purely economic strategic decision in big business. Every one is also social (or, if you prefer, political). Only a conceptual ostrich, with his head deeply buried in economic theory, could possibly use the distinction between economic and social goals to dismiss social responsibility.[7]

Business Cannot Solve Society's Ills

This is not to suggest that we must embrace social responsibility as the solution to our problems. It is nonsense to believe that business can solve the ills of society. It is also risky to allow business to use its resources without restraint in the social sphere, whether that be to support political candidates or to dictate implicitly how nonprofit institutions spend their money.[8] And social responsibility can never be relied upon alone. As we saw earlier, a good deal of what passes for social responsibility would disappear without other, countervailing forces on the corporation—pressure campaigns by activists, regulations by the government, and so on. Much so-called enlightened self-interest would become far less enlightened if the likes of Ralph Nader did not lurk outside the gates of every large corporation.

But given the immense power of large corporations—power not only to influence social issues in profound ways but also to circumvent government regulations and resist social pressures—the more ethical forms of social responsibility become imperative, at least if we are to have a humane society.

Where Social Responsibility Can Work

When business is involved in an issue to begin with and possesses some knowledge, social responsibility, alongside the other means to influence corporate behavior, has an important place: where government regulations are necessary but cannot work (e.g., where business creates externalities that cannot be measured and attributed to it); where regulation could work if only business would cooperate to help enact sensible legislation; where existing legislation needs compliance with its spirit as well as its letter; where the corporation can fool its customers or suppliers or the government through its superior knowledge; where employees need the freedom to blow the whistle on unethical superiors or colleagues for the sake of the common good; wherever a choice must be made (e.g.,

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[7] This is our main criticism of the Friedman doctrine. Others—the fallacies of (potential) shareholder control, of free markets, and of enterprise as private—can be found in Mintzberg [33:Ch. 33].

[8] Sethi falls into the contradiction of listing, among other forms of social responsiveness, taking "definite stands on issues of public concern" and avoiding "meddling in politics" [38:63]. He appears to be saying that managers should only meddle in the good issues, as if everyone knows what these are. Our position is that on behalf of their corporation, managers should involve themselves in no issues outside its own sphere of operations (and only carefully in the ones inside of it, so as not to abuse their power).

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in the selection of products and services) that can tilt the efforts of the corporation toward what is useful to society instead of what is useless or destructive. These are the places where society has a right to expect responsible behavior from its corporations. "[S]ocial responsibility is not telling society what is good for society but responding to what society tells the firm the society wants and expects from it" [43:44].

But can the businessman be socially responsible in these areas? All the evidence notwithstanding, the answer is that of course he can. Our second point is that there is always some "zone of discretion" in strategic decisionmaking. Ackerman, who uses the term, notes that managers have latitude as to "how soon and in what way to respond" to social issues [2:33]. That discretion can be used to subvert social needs, to ignore them in favor of economic ones, or to consider them alongside the economic ones. Contemporary control systems may reduce this zone, but they can never quite eliminate it. As the saying goes: where there's a will, there's a way. That is presumably what prompted 77 percent of Brenner and Molander's respondents to reject the statement that "every business is in effect 'trapped' in the business system it helped to create, and can do remarkably little about the social problems of our time" [12:68].

There is little doubt that social responsibility in large corporations could be a great deal better. But it could also be an awful lot worse. We have no idea of the depths to which we can drop (although Singer and Wooton's description of Speer's "administrative genius" provides some indication). It is our ethics that keep us from falling any lower. Without them—without the pure form of corporate social responsibility, even such as it is—we would be in serious trouble. Those ethics need not define only a base level of social responsibility; they can also bring us up from where we are. In Water's words, we must "tap into the tremendous reservoir of energy that exists among employees" in organizations, "unblock [their] natural ethical instincts" [45:13]. These can counter the forces pulling us down. Faced with a choice on Wednesday at 3:45 P.M. to decide how high to build that smokestack, what can counter the pressure of the financial controls is the manager's nagging sense of social responsibility, that there can be more important things in life than growth and profit.

The Limits of Legalistic Approaches

To dismiss social responsibility is to allow corporate behavior to drop to the lowest common denominator, propped up only by external controls, by regulations, pressures, and the like. It is to give credence to the voices of gloom, such as Tumin. Instead, we would do better to listen to the words of Solzhenitsyn:

> I have spent all my life under a communist regime and I will tell you that a society without any objective legal scale is a terrible one indeed. But a society with no other scale but the legal one is not quite worthy of man either. A society which is based on the letter of the law and never reaches any higher is taking very scarce advantage of the high level of human possibilities. The letter of the law is too cold and formal to have a beneficial influence on society. Whenever the tissue of life is woven of legalistic relations, there is an atmosphere of moral mediocrity, paralyzing man's noblest impulses [40:81].

We shall certainly not be able to eliminate the regulation of business (current fashion notwithstanding). But legalistic approaches only set crude and minimum standards of behavior, ones easily circumvented by the unscrupulous. This applies equally to legalistic approaches within the corporation—General Electric's directive 20.5 being a good example. Bureaucratic procedures to resolve the problems created by bureaucratic procedures remind one of the Latin American countries that have passed laws to insist that previous laws be respected. As Waters notes, "A mechanistic approach —such as having everybody sign a standard affidavit like GE's '20.5'—can impersonalize and desensitize the issue"; "increasing the clarity of the control procedures may enable the bad guys to navigate their way around the system more easily" [45:12-13]. Socially responsible behavior will infuse the organization not through procedures but through attitudes, not via directives but via examples, not because of "them" but because of "us." The question is one of simple, old-fashioned ethics.

And if the divisionalized form of structure proves to be too great an impediment to such behavior—as the evidence suggests—then our choice is clear: live with a low standard of corporate social responsibility or get rid of this form of structure. Bower has noted that "the best records in the race relations area are those of single-product companies whose strong top managements are deeply involved in the business" [6:193]. And Keim [25] has found that small firms seem to be considerably more philanthropic than large ones, because for them, in his opinion, the sound investment argument really works: their commitment to specific, identifiable communities not only forces them to be more responsive but also offers them greater direct rewards from the localized benefits. (For example, "A contribution to the local hospital improves medical service for the firm's employees"; moreover, better health care facilities may make it "easier to attract new employees to the community and to retain existing

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workers" [25:37-38].) The point is that commitment—simple involvement on a *personal* basis—would seem to be at the root of true social responsibility. And the opportunities for this in the giant organization would seem to be increasingly limited. The more important social responsibility becomes to a society of free individuals—and in our opinion, such a society will not survive without it—the more that society will have to question the bureaucratization, the diversification, and growth for its own sake of its organizations, public and nonprofit as well as private.[9]

[9] In this regard, it is of interest to consider how social responsibility has been studied in firms of different size. While the studies of the big firms found that the "responsible" ones used more prose in their annual reports, impressed the editor of a national magazine, replied appropriately in a questionnaire, or created yet another slot in the bureaucracy—this one programmed to make everyone else responsible—the one study we have of small firms found that they actually put more cash on the table. We are back to the point about the institution of more bureaucratic procedures to deal with the problems created by bureaucratic procedures, except that here it is the researchers who get caught up in the system, by using what are essentially bureaucratic research methodologies—that is, standardized, impersonal ones. How to measure the true social responsibility of a Beatrice Foods, with its 400 some-odd divisions? How to decide whether or not the hundreds of thousands of General Motors employees act responsibly? And if the researcher cannot even measure real social responsibility in the large firm, then how are its top managers to ensure it, let alone to think about it?

Reversing Long-Term Trends

There is a need to reverse the long-term trend toward impersonalism and utilitarianism in our organizations—toward squeezing out ideals, beliefs, feelings, ethics, and a sense of mission and purpose. Solzhenitsyn has experienced the natural finale to that trend. But the West is surely headed in the same direction, no matter that many of its bureaucracies are private. Social responsibility—that most naive of concepts— represents our best hope, perhaps our only real hope, for arresting and reversing that trend. Without responsible and ethical people in important places, the society we know and wish to improve will never survive.

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