Society’s Case for Corporate Responsibility

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Abstract
The business case for corporate responsibility finds widespread acceptance. However, being responsible only if it pays off neglects societal responsibilities of corporations. By applying a ‘business-in-society’ perspective this paper transcends the business case towards society's case for corporate responsibility. Assuming the major responsibility for corporations as the satisfaction of human needs different identities of corporations come into focus. Corporate Agents are opportunistically maximizing their profits, holding themselves accountable to shareholders only and representing a pre-conventional level of moral development. Corporate Stewards base their course of action on legitimacy while seeking to satisfy every facet of human needs - thus representing a post-conventional level of moral development. On the conventional level of moral development there are Corporate Conformists looking for profit within legal limits and holding themselves accountable to shareholders and the law. It is argued, that in order to foster the moral development of the firms it is necessary to apply social mechanisms depending on the moral development stage of a given corporation. Corporate Agents seem to be motivated by the business case and can be sanctioned either by regulation or social sanctions like boycotts. Corporate Conformists seem to be motivated by their reputation, which could be assisted by methods of social praise. To ensure its survival it is argued that society has to develop corporations at least on the level of Corporate Conformists as they are fulfilling the basic needs of a global society (sustainability). Survival and qualify-of-life aspects of the global society are best taken care of by Corporate Stewards.
1. Introduction

In January 2005 the Economist published an issue on "The good company - A sceptical look at corporate social responsibility". The neoliberal argumentation was challenged by letters to the editor within the following issues including comments stemming from prominent readers as Sir Christopher Bland - Chairman of the BT Group or Sir Geoffrey Chandler - Former Director at Shell International. According to Chandler (2002) there is a lot at risk if companies continue to act irresponsibly: "Financial failure can destroy individual companies. Moral failure will destroy capitalism".

In another survey of The Economist Intelligence Unit (2005) 85% of the participating executives and investors ranked CR as "central" or "important" consideration in investment decisions. The Sunday Times had a special issue on "Companies that count - Measuring, Managing and Reporting Responsible Business Practice" in March 2004. Corporate Responsibility so it seems, is en vogue.

2. Theoretical Background

To academics, however, corporate responsibility has been discussed for decades. In his concise review, Carroll (1999) dates the beginning of academic discussions back to Bowen’s book on "Social Responsibilities of the Businessman", which was published in 1953.

Recently, a lot of emphasis has been put on the business case for corporate responsibility (Wood, 1991; Waddock et al., 2002; Hart and Christensen, 2002; Prahalad and Hart, 2002; Arthur D. Little/BiC, 2002). However, acting responsibly only if it pays off, neglects the social role of an internationally operating corporation within a globalised world (Ulrich, 2001a) as well as the philosophical concept of responsibility (Jonas, 1979). Responsibility calls for the ability to respond to any kind of questions, not only questions about profitability but also questions directed to the legitimacy of corporate conduct. Therefore, it seems to be fruitful to ask additionally for society's case for corporate responsibility. Irresponsible behaviour with negative impact on society has to be addressed as well as incentives for responsible behaviour of corporations not containing an immediate pay-off. Thus society's case for CR extends the business case view by these two important sectors. The following graphic outlines these thoughts:

Figure 1: Society’s Case for Corporate Responsibility

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1 See also Rifkin (2005)

2 oikos Ph.D. summer academy 2005 – Sustainability Management and Innovation
The call for corporate responsibility has been justified by researchers on different grounds using economic, strategic, legalistic and ethical arguments. The business case for corporate responsibility (Quadrant I) demonstrates potential savings and better public reputation as a means for higher profits (WEF, 2003: 3). Even (Friedman, 1970) normally neglecting any corporate social responsibility would support the idea that "the social responsibility of business is to increase its profits". Research tried to show that the financial performance of responsible organisations is superior to competitors (McGuire et al., 1988; Aupperle et al., 1985; Vance, 1975). From economics the internalisation of externalities has been addressed (Plott, 1983; Gerdes, 1998). Others argue by a concept of social demand and social supply, which has to be balanced. Equilibrium is achieved when corporate social supply satisfies social demand. If business does not meet the social demand social pressure will be imposed (Angelidis and Ibrahim, 1993: 9). Also reputation- and risk-management issues have been identified as possible drivers for corporate responsibility. All these research trends may be summarized by the slogan: "Sound ethics is good business in the long run" (Baumhart, 1961: 10).

On the strategic level is has been shown that a focus on profits alone endangers the very foundation of our capitalistic system as they endanger the environmental and social basis on which business operates (Brundtland, 1987; Stigson, 1999; Chandler, 2002).

Legalistic arguments underline the necessity to stay within the rules of the game (Friedman, 1970) and call for compliance (see e.g. Paine, 1995; Hertz, 2004).

Ethical arguments have been applied to the question of futurability of the current behaviour (Jonas, 1979), the integrity of the actors (Ulrich, 2001a; Waddock et al., 2002) as well as to legitimacy (Preston and Post, 1981; Rivlin, 1983; Wood, 1991; Ulrich and Maak, 2000; Ulrich, 2001a; Gioia, 2003).

These lines of arguments appear in a mixed mode in discussion, the mix depending on the scope on an issue (e.g. Enron) or its moral intensity (e.g. Bhopal). The chosen mix influences the effectiveness of business-and-society interactions as it fosters or hinders the moral development of a given firm depending on its current moral development stage.

The moral development stage of the firm, however, is supposed to be essential for effectively holding corporations responsible for their societal performance. The distinction between economic, strategic, legalistic and ethical arguments helps to motivate corporations on different levels of moral development. Furthermore available social sanctioning mechanisms have not been analysed systematically for their effectiveness and integrity. The aim of this analysis is to develop a theory of the moral development of the firm, which is expected to be applicable to improve business-in-society interaction. First a normative prescriptive ideal will be constructed (Corporate Stewards), which will be compared to existing business practice (descriptive) and finally instruments shall be identified (instrumental) in order to come closer to the ideal of Corporate Stewardship. Major research questions addressed are:

- To what extent can a global society influence business towards corporate responsibility?
- Which ways of influence are most promising and upright?

Research in this area of society's case for corporate responsibility has been encouraged by Rivlin (1983), Wood (1991), Angelidis and Ibrahim (1993), Cadbury (2002: xvii), as well as Scully and Gentile (2003: 2), the UN Global Compact (2003), Hertz (2004) and Rifkin (2005). Not only academics have been addressing the interactions between business and society. Even practitioners like Peter Fuchs, Chairman VIVA Trust call for a different understanding: "It is becoming ever clearer to CEO's that business cannot succeed in societies that fail. It is

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2 The concept of moral intensity is explained in Jones (1991)
becoming clearer to all of us that societies cannot succeed where businesses fail to realize their corporate social responsibility to be generators of sustainable human progress for all.\(^3\)

Basic questions in the area of CR are (Ulrich/Thielemann, 1992: 18): for what (content), to whom (legitimacy), for account of whom (stakeholder) and to what extent (reasonability) are corporations responsible? First the content (for what) of corporate responsibility will be linked to the satisfaction of human needs. After human needs and their satisfaction have been discussed, the theory of business in society helps to identify to whom corporations owe responsibility. Finally by looking on the identity of corporations it will be shown to what extent they are held accountable for their financial and societal performance.

3. Corporate Responsibility

3.1 For what are corporations responsible?

Institutions are normally held responsible for fulfilling their purpose and the means they apply to do that. Here we find widespread agreement what the purpose of business is: to satisfy human needs (Weber, 1904: 165; Keynes, 1930; Smith, 1976: 58; Hein, 1983: 6; Wöhe, 1990: 1; Rich, 1990: 153; Ulrich, 2001a: 208; Gioia, 2003: 436). By the production of private goods and services corporations help to satisfy needs. By applying justice and a legitimacy-orientation of their business conduct (e.g. no waste of public goods), corporations assure legitimate means to satisfy needs. Against this background one could expect that globalisation supports the global satisfaction of human needs. But what are human needs in detail?

Humans develop needs on different levels. The most obvious is the individual level. Researchers like Maslow (1970), and Alderfer (1972) have focussed on the individual and discovered two basic differences in individual human needs.\(^4\) There are basic needs like hunger and physical survival next to additional needs like social integration, esteem and self-realisation.

Several researchers have translated individual phenomena to organisational level. Jones (1995) presented corporate morality as an analogue to individual morality. Collective action has been researched by Weber (1920: 79), Searle (1990), Balzer (1999) as well as Schmid (2003). Thus it is assumed that characteristics of individual behaviour can be applied as well to the organisational level as it has been done also by Gioia (2003). Depending on the aggregation of needs it makes sense for this paper to distinguish two more facets of human needs. The needs of the corporation have to be taken into consideration. Like with individual needs there is a distinction between basic needs for survival and additional needs of the corporation. Economic sustainability expresses the survival needs of a corporation (Dyllick and Hockerts, 2002), which has also been claimed by Resource-Dependence Theory (Pfeffer and Salancik, 1978). Financial, human and natural resources have to be provided in order to enable business activities (Tuzzolino and Aramendi, 1981). Additional needs of the corporation are expressed by its reputation as a part of society (Ulrich, 2001b; Thielemann, 2004) resulting in trust towards the business world (Eisenegger and Langen, n.d).\(^5\)

Furthermore there are needs of a global society. We can speak of a global society as long as there are humans living together on this planet. Independent of the existence of specific individuals and corporations this global society has survival needs as it depends on the natural environment and the provision of goods and services in order to nurture its members (Jonas, 1979; Angelidis and Ibrahim, 1993). Sustainability expresses this thought, it guarantees the possibility of a common future or in other words: society’s futurability (see e.g. Brundtland,

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\(^1\) The Sustainability Forum, Zurich, 26-27th of Aug. 2004

\(^2\) See also McGregor’s theory on X and Y-workers (1960).

\(^3\) In this respect functional reputation has to be separerated from social reputation. Functional reputation is expressing reputation relevant for business success (economic rationality), whereas social reputation defines the externally described quality of moral behaviour (moral point of view) of a certain actor (Eisenegger and Langen, n.d).
Besides its mere survival, society is also concerned about the quality of current and future living. Democracy (Frey and Stutzer, 2001), low unemployment (Cowling, 2004), art (Rivlin, 1983; Angelidis and Ibrahim, 1993) and music have an impact on the quality of living and the well-being of societies which go beyond mere survival needs. Happiness research done by Diener and Suh (1999) furthermore demonstrated empirically that the well-being of a society is not directly related to GNP above a minimum threshold of income needed to satisfy basic needs.

One might wonder about the difference between individual and societal needs. Conflicts between these needs however are quite obvious in some instances. Individual additional needs are sometimes in conflict with basic societal needs, e.g. the individual’s feeling towards the consumption of cigarettes and the societal health policy (Kotler, 1980; Abratt and Sacks, 1989).

If we summarise human needs as the basic and additional needs of individuals, corporations and global society we obtain the following graphic:

Figure 2: Human Needs as basic and additional needs of individuals, corporations and society

Society is wise to hold a portfolio of corporations responsible for the satisfaction of its needs (Abratt and Sacks, 1989). The individual corporation is seen as being part of international business which obtained a clear mandate for fulfilling human needs. Also the global society is composed of different local societies or nation states. If the purpose of business is to satisfy human needs, we can now assess the effectiveness of business operations not by the amount of GDP, but by the very reason for its existence.

Basic individual needs

On the physiological level Maslow (1970) identified food, water and shelter as parts of the lowest level of individual needs. Data from the United Nations Human Development Report 2004 show that more than 800 Million people suffer malnutrition (UNDP, 2004: 129), 1.197 Million people do not have access to improved water source (UNDP, 2004: 131). Global business could be motivated to satisfy these needs, but margins are lower and new business models are required (Prahalad and Hart, 2002).

Additional individual needs

Regarding social integration still 59 Million girls are neglected to get primary education due to gender issues (UNDP, 2004: 130). 891 Million people face discrimination on cultural, political and economical level due to their belonging to a certain culture (UNDP, 2004: 32). A poll among German students further revealed that 42% give high importance to high salary, while 93% favour interesting work (Brand Eins, 05/2005: 10). Corporations find it hard to satisfy these needs as people are considered human resources within the business sphere and are not always granted the rights to protect or foster their additional needs. Ulrich and Maak
(2000: 19) summarise: “... the constant pressure to rationalise the world of labour and to work more and longer hours and the hectic pace of a market-oriented lifestyle are leading many to question whether economic ‘progress’ is really improving our quality of life”.

**Basic needs of the corporation**

Between 1983 and 1999, the profits of the Top 200 firms grew 362.4 percent (Institute for Policy Studies, 2000: i). Global production has risen from 1950 to 1995 by the factor 5 (Afheldt, 2000: 45). Earnings per share of the S&P 500 rose from around 20 cent in 1993 to 37.5 cent in 1997 (BusinessWeek, 19.05.1997). Income growth from corporate profits has outpaced GNP growth by far in Germany (Afheldt, 2000: 62; see also Rifkin, 2005). Corporate profits have risen from around 10% in 1981 to 14% in 2004 as share of the GDP of G7 countries and analysts predict that trend to continue (The economist, 10.02.2005). Data suggests that basic needs of the corporation are satisfied.

**Additional needs of the corporation**

Trust in corporations as good corporate citizens or societal actors is low (Putnam, 2000; Turnbull, 2002). After issues like Enron, Arthur Andersen, Tyco, Parmalat and others not only trust in specific companies, but in the capitalistic system itself is scattered (Currall and Epstein, 2003; Hertz, 2004). Public trust ranks high for the Armed forces and NGOs, very low for global companies, large national companies and finally parliament and congress (Gallup, 2002). Without a clear demonstration of the fulfilment of its societal mandate business is facing trouble in (re-)building public trust. 82% of Americans demanded stronger laws to protect them against corporate fraud (Hertz, 2004: 208). However the need for trust is growing, as it supposed to be key to fruitful cooperation (Parkhe, 1998; Tyler 2003), for the functioning of networks (Bleicher, 1995) as well for innovations (Krystek and Zumbrock, 1993). Trust is also the basis to grant companies the right for self-regulation and voluntary standards (Eisenegger and Langen, n.d.).

**Basic societal needs**

In order to ensure a sustainable future for society resource consumption has to equal at maximum the reproduction capacity of the planet (Dyllick and Hockerts, 2002). WWF’s 2004 Living planet report, however, concludes that the human demand on the biosphere is increasing and currently consuming resources in an equivalent of 1.2 planets (WWF, 2004: 1). Global CO₂ emissions are causing a rise in temperatures (WBCSD, 2004a) impacting the livelihood of citizens around the world. Our global society also faces difficulties in meeting the demand for fresh water (WBCSD, 2004b). One is to conclude that basic societal needs are not satisfied on a global level.

**Additional societal needs**

Within the European Union the unemployment rate amounted in 2001 7.4% steadily decreasing from previous years (Europäische Kommission, 2003). In a global survey people expressed that ‘having a job’ ranks high on what matters to them most in life (Cowling, 2004: 3). German citizens e.g. view the future development of their well-being in a negative way (Perspektive Deutschland, 2005). Frey and Stutzer (2001) found that inclusion in democratic decision making provides non-economic utility to humans. However, a lot countries do not grant these rights to their citizens. The WEF (2003: 2) study on global corporate citizenship calls for a partnership approach between public and private organisations in order to tackle existing societal problems like corruption, deficit in education, water supply and terrorism. This call itself shows that society is facing troubles in these areas.
Judged by its very reason for existence business is not doing well to satisfy human needs on a global scale. If this responsibility is given to business from society one might conclude that society does not safeguard public interests effectively (Hertz, 2004). Does business know of its societal responsibilities to fulfil human needs? Is business hold accountable for that by society? In order to evaluate business and society interaction it is necessary to have a closer look on the nature of the corporation.

### 3.2 The nature of the corporation and its responsibilities

A corporation is a hybrid organisation not only responsible for the production of goods and services to satisfy human needs, but also to apply the right means to achieve this goal. E.g. are human rights abuses not permissible in order to produce certain products. On one hand a corporation is forced to be competitive in the marketplace and on the other society is asking for legitimate behaviour. This dual role is reflected upon by Ulrich (2004: 2) and extended by the impact on corporate responsibility.

**Figure 3: The dual nature of the corporation**

<table>
<thead>
<tr>
<th>Company</th>
<th>Business System</th>
<th>Lifeworld System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>is forced to be competitive in the market</td>
<td>as a societal actor has to base its actions on legitimacy</td>
</tr>
<tr>
<td></td>
<td>strategic-functional perspective on how to be successful</td>
<td>normative perspective on legitimate and a sense-making pursue of success</td>
</tr>
<tr>
<td></td>
<td>responsibility to shareholders</td>
<td>responsibility to society (stakeholders)</td>
</tr>
</tbody>
</table>

A corporation is always responsible. At least it is responsible to its shareholders. So the concept of corporate responsibility in itself is already embedded into the very nature of business activity, but economic responsibility prevails. However, the role of a corporate citizen is as essential (Weber, 1920; Wood, 1991; Matten et al., 2003; Gioia, 2003) as its role of an economic actor. Responsibilities can be contracted, self-assigned, denied and assigned (McQuail, 2000). Due to the immense power of international operating corporations they are seen as a new global political power (Hertz, 2001; Gioia, 2003). This political force has to balance its interests against other legitimate criteria (Ulrich, 2001a). So the ability to respond could be separated into (1) the ability to respond to sense questions – how does a corporation fulfil human needs, (2) the ability to respond to justice questions and (3) the traditional ability to respond to efficiency- and profit-questions.
Response-ability includes a dialogue between society and corporations. Stakeholder dialogue (Freeman, 1984; Donaldson and Preston, 1995; Ulrich, 2001a) is necessary for the definition of corporate responsibility in a certain context at the beginning of dialogue as well as the continuous process of holding corporations accountable for their performance towards the agreed responsibilities (Jonas, 1979). Thus responsibility is linked to accountability (Hodges, 1986). The need for dialogue has been addressed by business ethics (Ulrich, 2001a), interaction economics (Homann and Suchanek, 2000) as well as stakeholder theory (Donaldson and Preston, 1995). Corporate responsibility could thus be defined as 'the ability to justify corporate conduct with arguments referring to the satisfaction of human needs, to justice and to efficiency'. A precondition is of course that corporations enter into dialogue with society (Ulrich, 2001a) and that the concerns of citizens are taken seriously into consideration (Arnstein, 1969). Research has shown that there exists a discrepancy between society's and a corporation's definition of its specific responsibility (Moser, 2003; Lunau and Wettstein, 2004). Only via dialogue mutual expectations can be clarified and legitimised (Ulrich and Maak, 2000). Thus a company cannot define its responsibilities on its own.

The dual conception of corporate environment (market system and life world system) has implications for the responsibilities of corporations. Three different types of responsibilities can be distinguished for corporations: Must-Responsibilities, Should-Responsibilities and Can-Responsibilities (Carroll, 1979; Kaufmann, 1992; UN Global Compact, 2003; Leisinger, 2004).

**Must-Responsibilities**

Abiding by the law, producing goods and services to fulfil individual needs, obtaining a profit sufficient for the company’s survival as well as informing shareholders about the performance of the corporation can be considered Must-Responsibilities (UN Global Compact, 2003). From a companies point of view neglecting these Must-Responsibilities would endanger the company’s immediate survival. Public sanctions include legal complaints or insolvency.

**Should-Responsibilities**

Legal compliance represents a minimum set of corporate responsibilities which has to be enlarged by other concerns (Epstein, 1987: 102). Societal concerns like a sustainable way of producing goods and services are more and more integrated in mainstream business (Elkington, 1997). Companies have learnt by the examples of Shell, Nike and others that their long-term survival might be at risk, if they do not address these concerns at least at the communications level. These have not yet been codified by national or international law. Legal behaviour of corporation is not enough, as the law generally lags behind public expectations, is bound to the nation-state and only serves to assure a minimum set of standards (Boatright, 2003: 16). It is essential for society’s survival that social expectations regarding responsible business conduct are met by corporations even if not yet translated into globally enforceable regulations. To influence multinational enterprises apart from legal processes public sanctions like boycotts (Shell) and disinvestments (Dow Jones Sustainability Index) may apply.

**Can-Responsibilities**

By living up to the Must- and Should-Responsibilities companies ensure sustainability in the meaning of providing a basis for the possibility of a common future. This does not contribute to the quality of our common future or the current well-being of society. Praiseworthy activities of a company which could not be considered as expected by society and where no sanctions can be applied, are defined as Can-Responsibilities. The Mectizan-project initiated by Merck & Company (Useem, 1999) in order to address river-blindness by developing a medication for the disease and share drugs for free is a good example how companies can engage in Can-Responsibilities. Public sanctions can not be applied, however, companies merit social
reputation for these activities (Thielemann, 2004). Can-Responsibilities are fulfilled out of the duty of citizenry and cannot be explained by economic arguments alone (Eisenegger and Langer, n.d.).

A similar categorisation can be found in moral psychology. Kohlberg (1981) discovered that moral consciousness develops through three major stages.

The first is the pre-conventional level. Little children orient their behaviour either to generate individual satisfaction or to avoid punishment. The instrumental reciprocity is based on power and interaction with the social environment and can be twofold. Cooperation will be chosen if both parties profit, whereas if conflicts arise experienced distress will be repaid.

The second is the conventional level. Adolescents orient their behaviour at the moral expectations of their peers, described by Kohlberg as "good boy" or "nice girl". They fulfil their duties given either by law or by social expectations. This legalistic reciprocity is based on social cohesion.

The third is the post-conventional level. Adults reflect on the moral expectations and express reasoned criticism of morals, interests and ideologies. It is realised that behaviour can only be legitimised by the use of good arguments (Habermas, 1981). Persons become aware of the universality of human reciprocity granting themselves interpersonal respect. "Mutual recognition in terms of emotional affection, solidarity and citizenry (political and legal recognition) creates and enables human being" (Ulrich and Maak, 2000: 20) thereby enabling them to create a humane set of universal applicable values.

Moral development is directly linked to identity (Oser and Althof, 1994: 268-272). The relation between an organisation and its social environment determines its identity (Offe, 2000). The definition of corporate identity is also essential for the responsiveness towards societal responsibilities. Identity precedes rationality (Andersen, 2001). A company strictly seeing itself operating only in the business system faces difficulties in recognizing, accepting and living up to societal concerns. Facing societal demands corporations act in different rational ways, depending on their identity. Depending on the fulfilment of human needs and the orientation of corporations, society could distinguish the following ideal-types of corporate identities:

<table>
<thead>
<tr>
<th>Table 1: Identity and Orientation of corporations</th>
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<table>
<thead>
<tr>
<th>Stage of moral development</th>
<th>Economic orientation</th>
<th>Acceptance orientation</th>
<th>Legitimacy orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>pre-conventional</td>
<td>Instrumental</td>
<td>Strategic</td>
<td>Communicative</td>
</tr>
<tr>
<td>conventional</td>
<td>Harmonistic</td>
<td>Legalistic</td>
<td>Legitimacy based</td>
</tr>
<tr>
<td>post-conventional</td>
<td>economic point of view &gt; moral point of view</td>
<td>ethical considerations have either been codified by law or are expressed by powerful stakeholder groups - if it's legal and no sanctions apply it's ethical</td>
<td>after adhering to universal principles and principles of the community we live in the corporation chooses on economic arguments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reputation of the corporation</th>
<th>Societal Free-Rider</th>
<th>Functional Reputation</th>
<th>Functional and Social Reputation</th>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Societal identity represented</th>
<th>Corporate Agent</th>
<th>Corporate Conformist</th>
<th>Corporate Steward</th>
</tr>
</thead>
</table>

* The different rationales for action are taken from Habermas (1981: 384)
These ideal-types are not expected to appear in a pure sense in practice. However, different accumulated corporate attitudes may represent a type of corporation coming close to those proposed here.

**Corporate Agents**

Principal-Agent Theory describes an agent as acting opportunistically (Simon, 1961; Williamson, 1975; Jensen and Meckling, 1976; Williamson, 1985). Translating the model of man of agency theory to the organisational level Corporate Agents are self-interested actors rationally maximising their own personal economic gain (Donaldson and Davis, 1991: 51). Problems of Corporate Agents pursuing their economic goals at the expense of their principal, namely the global society, often result in critical incidents in business and society interaction. Prominent examples include cases like Bhopal and Sweatshop Labour. The moral development stage of these corporations accords to the pre-conventional level.

Corporate Agents perceive themselves operating only within the business system with minimal or no repercussion of their activities within the environment or society. They lack the necessary responsiveness to detect societal demands imposed on them. Therefore they are not aware of Should- and Can-Responsibilities formulated by society. Even Must-Responsibilities are circumvented in order to increase profits if corporations use lax regulations in third world countries for cost-saving strategies. Corporate Agents pursue maximum profit opportunistically and hold themselves responsible to shareholders only. A sample of Corporate Agent behaviour are the Maquiladoras in the northern part of Mexico, where corporations use lax regulation extensively in order to save costs but cause massive social and environmental externalities.  

**Corporate Stewards**

In contrast to the 'model of organisation' of a Corporate Agent, research in organisational psychology and organisational sociology suggest a concept which might be called Corporate Stewardship (McClelland, 1961; Herzberg et al. 1959). Stewardship theory has been advanced on individual level by researchers like Donaldson (1990a, 1990b), Barney (1990), Davis et al. (1997) and Worrell and Appleby (2000). Corporate Stewards are intrinsically motivated through "successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers" (Donaldson and Davis, 1991: 51). The interests of the principal (society) and the Corporate Steward are aligned or termed in our previous needs terminology: Corporate Stewards aim to fulfil all levels of human needs simultaneously (Davis et al., 1997: 21). The moral development stage of Corporate Stewards corresponds with the post-conventional level.

Corporate Stewards identify themselves as being part of a global society. They are responsive for individual as well as societal needs and try to live up to Must-, Should- and Can-Responsibilities. They perceive it to be their moral duty to adhere to universal principles because they are part of a global society. Corporate Stewards take legitimacy and integrity as the basis for their operations and do not sacrifice these values as a means for successful business (Ulrich and Maak, 2000: 21). They aim for legitimate profits and hold themselves responsible to the global society. Samples of Corporate Steward behaviour is given in the cases of Merck & Company (Useem, 1999) and Patagonia (Zint and Frederick, 2001).

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Corporate Conformists

Corporate Conformists are in between Corporate Agents and Corporate Stewards. Their purely instrumental approach to business in society is best described by 'sound ethics is good business in the long run'. However, as soon as the economic climate gets rough Corporate Conformists are expected to change their attitude towards the behaviour of Corporate Agents. The moral development stage of Corporate Conformists can be considered on the conventional level.

Corporate Conformists generally accept Must- as well as Should-Responsibilities. They aim for a legal profit and hold themselves accountable to shareholders and the law. A sample could be the behaviour of Shell in the Brent Spar affair. The company had all legal, as well as economic arguments on their side (Ulrich, 1996). The following figure illustrates the main characteristics of Corporate Agents, Corporate Conformists and Corporate Stewards:

Figure 4: Corporate Agents - Corporate Conformists and Corporate Stewards

4. Society’s agenda towards corporate responsibility

As a societal actor the corporation is responsible for the satisfaction of all facets of human needs as well as the means applied to do so. However, if sorted by urgency it becomes clear that Must- and Should-Responsibilities should have priority over Can-Responsibilities. The most urgent case for society is to ensure its own survival by the satisfaction of basic societal needs, which are reflected within the Must- and Should-Responsibilities of corporations. From society’s point of view the life world perspective dominates (Ulrich, 2001a). If a corporation’s activity does not satisfy human needs and are consuming valuable resources in order to generate profit alone, society would have to intervene.⁸

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⁸ Within the PhD thesis here it would be necessary to show the ‘dawn of a global society’, which could be shown by the number of internationally operating NGOs and other international organisations. Furthermore society will be interpreted as a nexus of communication (Habermas, 1981).
4.1 Evaluation of corporate conduct

Society has to discuss corporate responsibility issues with corporations establishing a set of common criteria reflecting society's futurability and quality of life aspects. Afterwards it has to engage in monitoring activities and hold corporations accountable. Following factors are essential in order to hold companies accountable for their societal performance: (1) Authenticity, (2) Integrity and (3) Legitimacy.

Authenticity

If the net impact on society's futurability and quality of life shall be positive, society has to make sure that corporations are walking the talk (Holliday et al., 2002). However, like demonstrated in figure 4 authenticity may as well apply to a Corporate Agent communicating that he is only maximising profits. Authenticity refers to the fit of corporate communications and corporate conduct.

An authenticity check however is necessary to take corporate communication seriously. Corporate communication can be analysed by some key features like (1) the connection of the mission statement of a company towards societal goals (Ulrich, 2001a), (2) the rationale of argumentation, which could be economic, legalistic, strategic or ethical dominated (Kohlberg, 1995) and (3) which forms of discussion forums are used frequently to communicate with employees, stockholders and stakeholders in general and which rights are granted to all stakeholders (Ulrich, 2001a). If companies are walking their talk (Ackerman, 1973; Holliday et al., 2002) could be judged by (a) their economic performance, (b) the footprint they cause by production, (c) legal cases applied against the firm, (d) their public track record regarding social and other non-economic motivated engagements. Talking in this sense reflects corporate attitudes whereas walking mirrors corporate behaviour. Two discrepancies might be discovered: (1) Talk > Walk – like demonstrated in figure 4 it might be the case that corporate communications tries to show the company in the light of a steward whereas it is operating like a conformist or even agent like the example of Enron shows. (2) Walk > Talk – the corporation is committed to societal goals, but the public in unaware of that fact. An example for this setting is the case of Patagonia described by Zint and Frederick (2001).

Integrity

The second dimension in figure 4 demonstrates the orientation towards societal goals, expressing the organisations integrity towards society. Judging the integrity of an organisation is connected to the previous evaluations if corporations do walk the talk. Having analysed the walk of the corporation by judging the inherent rationale for their engagements their moral development status could be evaluated. Firms using only economic arguments (Must-responsibility) seem to operate on a pre-conventional level, firms using economic, strategic and legalistic arguments on a conventional (Must- and Should-Responsibilities) and last but not least firms integrating as well ethical arguments on a post-conventional stage. The more argumentation levels conclude in favour of corporate conduct, the more integrity is reflected by the business operation. Like stated before, corporations find themselves in the role of citizens as well as economic actors. Role conflicts are programmed. It is essential for society, however, that the citizen role has dominance over economic considerations (Ulrich, 2001b).

Another form of judging the integrity (integrity check) of a corporations towards a legitimate course of action is to see if it engages proactively in critical areas, where no pressure for reputation risk-management is felt. Identified engagements indicate that principles are taken seriously even if not pressured by society. A last possibility to verify stewardship behaviour is to evaluate the course of action (societal track record) like e.g. Merck & Company's River Blindness engagement as opposed to other economic forms of reputation building.
Legitimacy

As conditions as well as societal goals change it is important that corporations are engaged in continuous dialogue with society. Legitimacy is the possible affirmation of all stakeholders. Considering all facts discussed above corporations have to enter in dialogue with society, have to provide transparent information on the agreed responsibilities and hold themselves accountable for the achievement of societal goals. Society has to make sure corporations meet these demands. A legitimate and integer course of business is reflected by a business rationale which makes efficient corporate conduct always dependent on its legitimacy (Ulrich and Maak, 2000: 21).

If the authenticity and/or integrity check reveals areas for improvement society has different means in its command to influence on corporate behaviour depending on its current moral development level:

Figure 5: Societal influence on moral development of corporations

<table>
<thead>
<tr>
<th>talk</th>
<th>walk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>talk</td>
<td>walk</td>
</tr>
</tbody>
</table>

Moral development of firms is going along these lines as expected by the research of Kohlberg (1981) and demonstrated e.g. in the case of Nike described in Zadek (2004). By public pressure it is supposed to develop a Corporate Agent to the level of a Corporate Conformist. However, pressure does not foster a Corporate Conformists development towards stewardship. As the proactive social engagement of Corporate Stewards derives from self-selected principles of conduct it is not possible for society to "influence" corporations into this direction. Dialogue is becoming more important as normative/ethical arguments determining the societal mission of the company as well as its conduct will dominate in discourse. Oser (1992) identified the progressive-pedagogic moral development approach as most fruitful to develop a stewardship attitude. In the progressive-pedagogic approach the corporation develops through active interaction with society.

4.2 The moral development of corporations

As stated by Brecht (1968) “first one has to eat in order to care about morals” corporations facing financial trouble are endangered not to consider societal or ethical aspects in their business practice. Therefore it is supposed that individual firms with unsustainable business
models will always opt for their own survival instead of ceasing business which would be in
the interest of society to ensure its long-term survival.

Moral development of Corporate Agents

Organisations operating on the pre-conventional stage are motivated by individual satisfaction
or the avoidance of punishment. To motivate Corporate Agents the business case for corpo-
rate responsibility certainly is the right way as it satisfies their individual needs. As demon-
strated the business case alone is not sufficient to ensure societal futurability, legitimate busi-
ness conduct or quality of life aspects. To develop a Corporate Agent on the next level soci-
etal considerations have to be translated into financial impacts. This can be done by holding
them legally accountable (Hertz, 2004), blocking of critical resources (Pfeffer and Salancik,
1978) and boycotting their outputs. These corporations have to feel what it means to be
member of society and that a lack of trust and legitimacy hurts. Discourse between Corpo-
rate Agents and society explaining Corporate Responsibility is thus expected most fruitful if it
considers economic, legalistic and strategic arguments.

Moral development of Corporate Conformists

Organisations operation on the conventional level are motivated by the moral expectations
of peers and concerned about transferring a functional image of a 'good boy'. Corporate
Conformists already ensure sustainability but could contribute to quality of life aspects. Main
drivers are expected to be the functional and social reputation of the firm, as well as methods
of social praise. Interaction between Corporate Conformists and society is expected to be
productive if strategic and ethical arguments are used in discourse.

Moral development of Corporate Stewards

Organisations operation on the post-conventional stewardship level are motivated by good
arguments in the ethical refection of corporate conduct and solidarity with the community.
Main drivers to assist them staying at level is to enable them to raise the bar by setting new
standards either by industry standards or national and international regulation. As they are
motivated by principles their proactive engagement for society should be honoured. In dis-
course arguments on the economic and legalistic level seem to be counterproductive. There-
fore interaction between Corporate Stewards and society should be based on strategic and
ethical arguments.

4.3 Societal means to "influence" on corporate conduct

The means of social influence have to correspond to the moral development stage of the
specific corporation. The following means are available to society in order to hold business
accountable for its societal responsibilities.

Table 2: Societal Strategies to influence on Corporate Responsibility

<table>
<thead>
<tr>
<th>Form of influence (liability)</th>
<th>Strategy Way</th>
<th>Means</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Obligation</td>
<td>1 Legal</td>
<td>International</td>
<td>Effective</td>
<td>Long-term process</td>
</tr>
<tr>
<td></td>
<td>2 Legal</td>
<td>National Regulation</td>
<td>Effective</td>
<td>Bound to nation state</td>
</tr>
<tr>
<td>Social Sanctions (answerability)</td>
<td>3 Peer pressure</td>
<td>Industry Standards</td>
<td>Moderate effective</td>
<td>Enforcement difficulties - trust required</td>
</tr>
<tr>
<td></td>
<td>4 Peer pressure</td>
<td>International Initiatives</td>
<td>Foster stewardship</td>
<td>Trust has to be high</td>
</tr>
<tr>
<td>Economic (Output factors)</td>
<td>5 Economic</td>
<td>Boycotts Political shopping</td>
<td>Effective</td>
<td>Focussed Trustworthy NGOs</td>
</tr>
<tr>
<td></td>
<td>6 Economic</td>
<td>Internalisation</td>
<td>Effective</td>
<td>Focussed</td>
</tr>
</tbody>
</table>
Available strategies for society to influence on corporate responsibility shall be analysed to overcome obstacles and to identify most promising initiatives in the area.

Table 3: Societal Strategies to influence on CR and Most Promising Initiatives

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Obstacles</th>
<th>Most promising initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Long-term process</td>
<td>Global Marshall Plan</td>
</tr>
<tr>
<td>2</td>
<td>Bound to nation state</td>
<td>Hold companies responsible in first-world countries (e.g. Sarbanes-Oxley, Alien Tort Claims Act)</td>
</tr>
<tr>
<td>3 and 4</td>
<td>Enforcement</td>
<td>NGO watch (e.g. Corporate Watch)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Value Chain attack (e.g. Nike)</td>
</tr>
<tr>
<td>5 and 6</td>
<td>Focussed on one company</td>
<td>Value chain attack (e.g. Nike)</td>
</tr>
<tr>
<td>7</td>
<td>Focussed on one company</td>
<td>Initiate Best-Practice Sharing (e.g. Corporate Citizenship Award)</td>
</tr>
</tbody>
</table>

Agency theory calls for monitoring and control mechanisms (Donaldson, 1990: 372). As long as trust towards a specific corporation is low (Gallup, 2002) it will have to demonstrate its societal performance. To create an awareness for the business-in-society view and to enable society to formulate its expectations towards corporations discourse is the key element. Stakeholder dialogue seems to foster this understanding as well as moral development, as arguments on different levels (pre-conventional, conventional and post-conventional) will be used by the actors involved. Corporate Agents as well as Corporate Conformists will realise in discourse that their economic and legalistic answers do not fit to the ethical questions of society as do the ethical answers of Corporate Stewards.

4.4 The effectiveness of societal action

The effectiveness of society’s conduct is supposed to be determined by the following factors: (1) the enforceability of international and national regulation, (2) the criticality of the resource on which a company is dependent and (3) the dependency of the firm on its reputation. The severity of the strategy chosen by society is expected to be related to the impact of corporate conduct on futurability and quality of life.

To assist corporations in improving their moral development communication is the key driver. The potential of communication with society helps them not only to clarify responsibilities, but also to discover future business landscapes and the real needs of society. Like mentioned before only in discourse any actor can legitimise its actions. Furthermore discourse is seem to be the best leverage for moral development on all levels.

5. Implications

5.1 Practical implications

A broad public debate is expected to lead to a better understanding of the responsibilities of corporations around the globe. As responsibilities become clear companies will call for international regulation to create a plain level of corporate conduct for brand-name companies as well as no-name companies. CEO’s of international operating companies want to focus on providing value to society and individuals instead of discussing corporate responsibility issues, but have to avoid that their societal approach nurtures disadvantages in the marketplace. By
providing the right argument in different contexts society will gain effectiveness in its interaction with business and the media is supposed to mix blame-and-shame strategies with praise-strategies to support moral development within the business sphere.

### 5.2 Theoretical implications

Researchers in business ethics are called to use a set of arguments which motivates Corporate Agents as well as Corporate Stewards if they intend to improve responsible business practice. Business-in-Society research is expected to enter into mainstream business courses, as the identity of organisations determines not only their behaviour in regard to society, but also their internal management systems.

### 6. Conclusion

This research shows that society can influence business towards more responsible behaviour by legal sanctioning, social sanctioning and social praise. To develop companies on a higher level of moral development discourse is the central element. In discourse corporations become aware of their societal responsibilities and in discourse they are held accountable by society. Also the integrity of business & society interaction depends on discourse. Several obstacles have been identified which hinder effective society and business interactions and most promising initiatives have been analysed. This is not to say that a single strategy will achieve the goals of a global society, but that simultaneous engagements are necessary in order to improve the behaviour of global corporations.

Further research is encouraged by this study to enrich general management theories by the integration of ‘business in society’ research. A prominent candidate to begin with is Marketing as it is supposed to be the connecting link between the needs of society and the production of the company. Several researchers have already begun to understand this connection (Kotler and Levy, 1969; Kotler, 1999; Belz 2001). Marketing, however, is only one example. On empirical ground it would be interesting to see how certain business environments represent themselves in a percentage of Corporate Agents, Corporate Conformists and Corporate Stewards. Kohlberg’s studies could be extended to business organisations and reveal empirical evidence on the moral status of individual firms, industries or nations. Other questions in this area lead to the identity of the international community (United Nations - Agent or Steward?), national communities (Germany - Agent or Steward?) and its repercussions on the corporate sector (How does a Corporate Steward behave in an agent environment?).

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