Corporations and Societies: Searching (New) Paradigms

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Commentary on the article by James E. Post

1.   Introduction

What is the nature of the large corporation and what is its relationship to the economy and the larger society? In 1975, Lee E. Preston addressed these two questions with his seminal literature review that provided an important milestone for the emerging business and society debate. Reviewing Preston's (1975) search for a corporation-society paradigm forty years later, James Post's enjoyable and thoughtfully argued contribution to this issue of **_zfwu_** not only discusses how the field has since developed. What is more, Post identifies current sustainability issues like climate change as a novel challenge for theorizing the corporation-society relationship.

Post's review of the past forty years and outlook on novel challenges regarding the corporation-society paradigm (p. 145–148) raise the question this comment seeks to briefly address: what can we learn from the previous and current business-society debate for searching a (new) corporation-society paradigm? The answer to this question developed in this article claims that the (changing) interplay between business and society can only be understood when taking into account different problem settings characterized by the (changing) role of government regulation. To substantiate this claim, the next section first looks at Preston's (1975) original article and its implicit assumptions of nation-state governance before arguing that in the age of globalization new problem settings have emerged, including multinational value chains as well as global sustainability challenges that call for new governance solutions.

2.   Corporation and Society: Traditional Nation-State Governance

A paradigm is "a set of assumptions about the world which is shared by a community of scientists investigating the world" (Deshpande 1983: 101). These assumptions may be explicit and clearly formulated. However, assumptions may also be implicit and become visible only when a new paradigm challenges them. What are, then, the assumptions underlying Preston's (1975) literature review of the corporation-society relation?

Although Preston and the literature he reviews typically talk about the dyadic "corporation-society" relation, this literature implicitly follows an underlying paradigm of traditional nation-state governance that can be characterized as the *triangular* interplay of business/market, the public/society, and government/regulation. This nation-state

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paradigm rests on three assumptions: first, the corporation is embedded in *one* society with one set of "(p)ublic expectations with respect to specific aspects of business performance" (Preston 1975: 444). Second, the corporation is embedded in *one* regulatory context that defines the market rules for business behavior. Third, there is a democratic or at least some form of feedback process through which public expectations can be transmitted via law-making to regulate the firm according to society's preferences.[1]

Such triangular nation-state governance has far-reaching implications for any corporation-society paradigm. To start with, it directly connects the economic role of the firm with the larger society in at least two ways: first, society has expectations that can influence the firm in a direct, yet often weak way. Second, public expectations can influence the firm in an indirect, yet very effective way, namely through what Preston (1975: 444) referred to as the "continuous process by which societal expectations are transmitted to the corporation by means of legislation and regulation"[2]. Triangular nation-state governance thus spells out a division of labor in which the *state* is the systematic *rule-maker* to address collective action problems such as externalities or the provision of public goods, whereas the *firm* is merely a *rule-taker* of such regulation.

Given this triangular nation-state setting, it makes sense to frame the debate in "corporation-society"-terms with both nouns being in the singular. While the nation-state model is constructed around one society, the corporation in it is very much a rule-taker the responsibility of whom lies in acting out its individual role in this given setting. The next two sections argue that abandoning this nation-state problem setting raises specific challenges for the corporation-society paradigm.

3.   Corporation and (National) Societies: Multinational Value Chains

Preston (1975: 434) began his review by asking "What is the nature of the large corporation?" As an anti-trust economist, he focused on the effects of corporation size within a given – and arguably national – economy that a competitive policy maker could regulate (see also Post's article, p. 137). The "large corporation" was then viewed primarily through the nation-state governance lens.

Forty years later, in the global economy of the 21st century, the "nature of the large corporation" is typically no longer national. Multinational companies (MNCs), which

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[1]   To illustrate how prominent contributions in the business and society debate build upon this implicit nation-state paradigm, take Carroll's (1991) famous CSR pyramid. While the economic responsibilities refer to a corporation's embeddedness in the (national) market, the legal responsibilities like "Obey *the* law" (ibid.: 42, emphasis added) or "to comply with various federal, state, and local regulations" (ibid.: 40) presuppose a legal framework defined and enforced by a nation-state. Similarly, the ethical responsibilities "to perform in a manner consistent with expectations of societal mores and ethical norms" (ibid.: 43) assume one society with clearly defined expectations. By the same token, Friedman's (1970) famous essay "The social responsibility of business is to increase its profits" made clear that this responsibility presupposes that profit-seeking (market) conforms "to the basic rules of *the* society, both those embodied in law (regulation) and those embodied in ethical custom (social norm)" (ibid.: 33, emphasis and brackets added), thus implicitly assuming that there is *one* society with *one* legal system and *one* set of ethical norms.

[2]   Note the triangular concept that links *one* corporation with *one* set of societal expectations through *one* regulatory and legislative framework.

rank among the largest corporations, operate multinational value chains that span the entire globe. From an MNC perspective, the traditional triangular setting of *one* corporation embedded in *one* society with *one* legislative and regulatory framework no longer holds true. Rather, *one* MNC now typically operates in both various societies with diverging public expectations and various legal jurisdictions.

This departure from single nation-state governance poses new challenges for both ends of the corporation-society spectrum. For societies, the ability to translate public expectations through government regulation into rules for firm behavior can suffer when firms threaten to play off national regulators against each other in a regulatory race to the bottom (see Konisky 2007). Similarly, the corporation faces the challenges of reconciling often irreconcilable legal and ethical expectations from different countries. Take the famous example of the dilemma that American IT companies such as Google, Yahoo, and Microsoft faced in their business in China. In these cases, compliance with China's legal and government expectations to disclose the private data of political dissenters is in sharp violation of Western social expectations to protect civil liberties (see e.g. Tan/Tan 2012).

For brevity, these short reflections may suffice to illustrate two points. First, from a corporate perspective, companies in multinational value chains operate in various societies, which invites complementing Preston's original perspective with a corporation-*societies* (in the plural) paradigm. Second, this corporation-societies paradigm no longer refers to the problem setting of the single nation-state. Consequently, it needs to reexamine its assumptions about the division of labor between public discourse, government regulation, and business. In doing so, making these reflections explicit may actually provide a fruitful research agenda for analyzing the problem setting of multinational business activities.

4. Corporations and (Global) Society: Global Sustainability Challenges

Towards the end of his article, Post spells out a number of novel challenges that a future corporation-society paradigm needs to address. Referring to climate change, he argues:

> "While individual firms can/must adjust behavior to reduce pollution (…) *the collective 'public bads'* that drive climate change *require collective action* of a type, and on a scale, *that seems to be beyond the scope of CSR thinking*" (p. 146, emphasis added).[3]

The key claim of this section is that Post's remark points out a third problem setting in which Preston's original triangular interplay of business, government, and public discourse has again changed – and thus requires a further adaptation of the corporation-society paradigm. How can this new constellation be described?

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[3]   Note that it is not new that "collective 'public bads' (...) require collective action" (p. 146). This is also true for "public bads" problems in the traditional nation-state setting. The difference is that in the latter context the state can vicariously organize collective action on behalf of business and other social actors, whereas in the age of globalization these actors need to actively establish new forms of collective action.

In today's globalized world, only two legs of the former nation-state triangle have globalized. This includes not only the corporation and its multinational operations but also the nature of many challenges such as climate change, global income inequality, or population migration (see Post's article, p. 147). As these issues affect all of humankind, it is thus fair to assume that companies operate with regard to these issues in *one* global society. However, while the corporation and societal expectations to address shared problems have thus globalized, the nation state as a systematic mechanism to organize collective action through regulation has not. There are global market failures, yet there is no global government to effectively address them.

In this "postnational constellation" (Habermas 2001), collective challenges require collective solutions beyond the traditional nation-state governance setting. Accordingly, Post (p. 147–148) calls for "a 'sustainability' paradigm of collective action by business, government, and other social actors on an international scale". However, by maintaining that such a new paradigm seems "theoretically and practically elusive" (p. 147), Post's review neglects the rich scholarly debate about the "new governance" in which companies engage in such collective action (see Scherer/Palazzo 2007; Beckmann et al. 2014). This new perspective highlights that a sustainability paradigm requires conceptualizing the firm not only as an economic (rule-taker) but also as a political actor (rule-maker) (see Scherer et al. 2014; Pies et al. 2014). While this "political CSR" to foster effective collective self-regulation is still a rather new field, first practical steps include collective initiatives such as the Global Business Coalition to Fight HIV/AIDS, the Marine-Stewardship Council to protect global fish stocks or the Extractive Industries Transparency Initiative to address the global challenge of corruption in the natural resource sector.

To summarize, this new problem setting highlights that for many global challenges the critical questions do no longer concern the relationship between society and the *individual* firm but the level of global industry and even cross-industry governance, thus focusing on the *collective* of large firms. To capture this "postnational" problem setting, Preston's original perspective may thus be complemented with a *corporations*-society paradigm that systematically shifts the research focus toward such collective action dynamics.

5. Corporations and Societies: In Search for New Paradigms

In 1975, Lee E. Preston (1975: 434) saw the emerging literature on corporation-society relations as "widely scattered" and in search for a clear paradigm. Post's insightful review concludes by somewhat deploring that forty years later "there is still no generally accepted paradigm" (p. 148).

However, while conceptual progress towards a more integrated paradigm is surely desirable, different paradigms might also reflect the different problem settings they seek to address. Following this idea, this comment tried to establish that the corporation-society relationship could be analyzed in at least three very different governance contexts. While Preston (1975) focused above all on nation-state governance where regulation can translate societal expectations into market rules for firm behavior, the complexity of business-society relations has since increased. From a corporation's perspective, a multinational firm now operates in many societies and jurisdictions

simultaneously, posing new questions for both business and society. From a global perspective on issues such as climate challenge, the world society now needs to learn to engage with business and other actors to provide collective governance solutions where a world government is absent and therefore fails to provide such solutions.

Depending on the issue at hand, all three problem settings seem to be of relevance today. Companies still operate in many nation-state contexts. They do manage multi-national operations that effect local constituencies. And they do contribute to and are affected by global sustainability challenges. In our quest to find a generally accepted paradigm for the corporation-society relationship, the first steps might benefit from understanding the diversity of the underlying problem settings and from developing alternative and more fine-grained research paradigms to acknowledge this diversity. The distinction developed here between corporation and society, corporation and *societies*, and *corporations* and society has been a modest step in this direction.

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