



By Fred Block

A CORPORATION WITH A CONSCIENCE?

FOR THE LAST TWENTY-FIVE YEARS, POLITICAL AND ECONOMIC DEBATES IN THE UNITED States have been dominated by market fundamentalism—a vastly exaggerated belief in the capacity of market competition to solve economic problems. It has been the justification for regressive tax cuts, rollbacks in the government’s regulatory capacity, and the widespread use of privatization to weaken the public sector. Its dominance has been a key factor in weakening the labor move-

ment and generating the current conflict over how labor can rebuild its strength.

While labor and its allies have tried to resist market fundamentalism on many fronts, these efforts have been weakened by the absence of a coherent alternative. For too long, we have fought defensive battles, attempting to hold onto the New Deal settlement despite its obvious limitations. Now that market fundamentalism’s failures are becoming more obvious, it is urgent that we elaborate a coherent alternative vision of how the economy should be organized.

One promising alternative to market fundamentalism is the idea of a “moral economy.” In a moral economy, the pursuit of profit and self-interest would be subordinated to deeply held values such as equality, environmental sustainability, democratic self-governance, and the obligation to do unto others as they would do unto you. The goal is to reframe the old debate between advocates of “more state” or “more market” into a new choice between an immoral economy and a moral economy.

To make this approach persuasive, it is necessary to explain what a moral economy might

look like. This essay is intended to describe what large corporations might look like in a moral economy and to suggest a strategy for transforming our ethically challenged corporations into ethically responsible firms.

THE PROBLEM AND ITS ROOTS

THE CURRENT CRISIS OF THE CORPORATION HARDLY needs to be belabored. Its most obvious symptoms are the explosion of executive compensation, a long series of corporate accounting scandals, and management's myopic focus on short-term profitability. As corporate officers are focused on boosting the share price and on paving the way for the next big deal, they send word down the hierarchy to increase profits by any means necessary. A collapse of corporate ethics has been the logical consequence of the pursuit of quick wealth.

The current corporate crisis is closely linked to the rightward shift in American politics. The story began with the social upheavals of the 1960s and the difficulties of the U.S. economy in the first half of the 1970s. The public was increasingly distrustful of large corporations, and was insisting that they play a more active role in solving social problems such as racial inequality and environmental degradation. U.S. firms were also facing intensified foreign competition and a domestic economy suffering from both inflation and weak demand.

Corporate leaders could then have responded with a reform agenda that involved both systematic efforts to revitalize their firms combined with efforts to negotiate new cooperative relations among business, government, and civil society. This path was not taken. Most voices in the business community chose instead to blame all of their problems on outsiders; they claimed that expanded government regulation

and heavy tax burdens were responsible for all economic difficulties. They insisted that a return to long discredited ideas of market fundamentalism, characterized by small government and little regulation, would miraculously revive the corporate economy.

These business advocates of *laissez faire* invested heavily in a new network of conservative think tanks and an alliance with the right wing of the Republican Party. This alliance led directly to Ronald Reagan's election in 1980 and the triumph of market fundamentalism. As the tight alliance between business and Republican conservatives solidified, many Democratic Party politicians also moved in a pro-business direction to avoid losing access to potential campaign contributions. The result has been a bipartisan political consensus in favor of weakening government regulation of business.

This shift also produced a new vision of the corporation. This vision emerged directly from the revival of *laissez faire* economics; it was elaborated in right-wing think tanks and corporate-oriented business schools. The new vision celebrates what can be termed the "me-first corporation."

The word "corporate" literally means "united or combined into one," and in the Middle Ages it was the legal term for craft guilds and city governments that were granted special privileges by political rulers. In both their earlier and their modern forms, corporations are about subordinating the interests of the individual person to a broader, communal set of purposes. Hence, the corporation has always fit uneasily into free market economics which emphasizes rational actors seeking to maximize individual utility. The corporation combines these individuals under a collective rationality; it subjects individuals to discipline and control.

Since the only form of discipline and control that free market economists like is that which is imposed by impersonal markets, they invented the idea of the me-first corporation. They claimed that if corporate managers focused entirely on maximizing their own personal wealth, the magic of the market would assure enhanced corporate efficiency. This vision achieved its highest expression in Enron, a firm that hired smart people and gave them almost complete freedom to do their own thing. Every executive was an independent entrepreneur attempting to create new lines of business, and free to entice employees away from other units at Enron with promises of even greater bonuses. But as Enron's collapse suggests, the me-first corporation is an oxymoron; it cannot work.

This new vision of the corporation has served as the justification for the explosion of corporate compensation. In the me-first corporation, firms have no right to demand loyalty of top corporate officers; the loyalty has to be purchased with vast amounts of stock options and promises of huge golden parachutes should their employment contracts be terminated. But instead of aligning the interests of corporate managers with those of shareholders, the result has been a systematic looting of corporate profits and an explosion of irrational deal making driven only by short-term returns.

PROBLEMS WITH CURRENT REFORM EFFORTS

IT WILL NOT BE EASY TO PUT THE GENIE OF CORPORATE greed back in the bottle. Thousands of would-be corporate chieftains currently in their

thirties and forties are just waiting their turn to get their own pile of loot. Across corporate America, expectations about how much personal wealth one needs to feel safe and secure

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escalated dramatically in the 1990s. As long as newly installed CEOs expect to pocket hundreds of millions of dollars during their tenure, the downward spiral of the corporate system will continue.

The labor movement and its allies have campaigned to improve corporate governance and expose corporate malfeasance. To date, however, their initiatives have failed to reach critical mass. One weakness has been the absence of a powerful vision of what the reformed corporation would actually look like. For at least a generation, reformers have advanced the idea of the "socially responsible" corporation, but public relations firms have successfully seized control of the term and have emptied it of any content.

Moreover, corporations routinely play different groups of reformers off against each other. Fast-food companies will make significant concessions to activist groups on issues

ETHICAL INCORPORATION PROVISIONS

- 1. Executive compensation.** Upward limits would be placed on the total compensation that corporate officials are allowed to receive in the form of salary, bonuses, stock, stock options, pensions, loans, and deferred compensation. (The highest-paid official might, for example, be limited to compensation no more than 20 times the average for all other employees.) It would also assure that compensation agreements were fully transparent.
- 2. Corporate governance.** The statute would require that the board of directors be diversified. One possible model is that four members of the board would be elected as representatives of the shareholders, three as representatives of the employees, and three as representatives of the public interest. The last four would be chosen from a pool of individuals who have been credentialed as having the expertise to understand corporate accounting and balance sheets.
- 3. Corporate free speech.** To assure that employees would be free to campaign vigorously for positions on the board of directors, they would have to be protected from the threat of arbitrary dismissal or reprisal. Firms would have to establish an internal judicial procedure to assure that firings and reassignments were not arbitrary and capricious. This would also operate to protect whistle blowers and hasten disclosure of unethical practices.
- 4. Employee rights.** In recognition that the corporation is a community in which employee rights must be recognized, firms would agree to recognize a union, and bargain in good faith whenever a majority of a bargaining unit of employees indicates support for a union by signing representation cards. This neutrality in union campaigns means that firms would not spend funds on antiunion campaigns.
- 5. Environmental policies.** Firms would develop a “green plan” for reducing resource usage and waste (solid, liquid, and gas) in keeping with best practices within a particular industry.
- 6. Public health.** Firms would be held to higher standards, assuring that their products are consistent with maintaining and improving public health.
- 7. Global practices.** In overseas operations, firms would pledge to pursue global best practices in employment relations and environmental policies even in nations where regulatory enforcement is lax.
- 8. Disclosure.** Firms would adhere to higher standards in disclosing information to public and government officials, although they would continue to protect proprietary information that is essential to their competitive position.
- 9. Enforcement.** The statutes would allow for enforcement of these provisions both by state attorney generals and by some third-party monitoring agency. The basic idea is that penalties for fraud in the context of ethical incorporation would be more severe and more quickly discovered because of third-party monitoring.

such as treatment of farm animals, while simultaneously redoubling their efforts to block increases in the federal minimum wage. Similarly, energy firms will make significant investments in environmental improvements in one place

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while completely resisting the demands of activists in the developing world.

Finally, different groups among the reformers have focused on separate aspects of the reform puzzle. Some emphasize reform of corporate governance in the hope that strengthening the autonomy of the corporate board will hold CEOs in check and improve corporate performance. Some focus on tougher laws and stricter enforcement as the most direct route to reducing corporate corruption. Still others have concentrated on public exposure as the best way to get corporations to clean up their acts. But true reform requires that all three of these approaches be combined on an ongoing basis.

A STRATEGY FOR REFORM

IN HIS BOOK *THE TRANSFORMATION OF CORPORATE Control*, the sociologist Neil Fligstein offers a useful way to think about the problem of reform. He argues that over the last century, there have been four distinct paradigms that corpo-

rate elites have used to manage both the firm and its competitive environment. The first was “direct control,” in which firms used mergers or holding companies to gain the dominant position in an industry. When this ran afoul of antitrust laws, managers turned to the “manufacturing conception of control,” where small numbers of large vertically integrated firms came to dominate many industries. This was followed by the “sales and marketing conception of control” and finally by the “financial conception of control.”

The wave of corporate scandals can be traced directly to the triumph of the financial conception because it sees the firms as nothing but a bundle of assets that should be manipulated to produce the highest returns. Fligstein argues that in each distinct phase, there are systematic variations in the types of people who get elevated to corporate leadership and in the strategies that they deploy.

In his account, the transition from one conception of control to the next occurs spontaneously as corporate actors respond to changed economic and political circumstances. But it would be consistent with his schema that the next transition might occur as a result of systematic and organized demands from a range of different reformers who harness both political and economic pressures to make a new conception of the corporation appear logical to corporate insiders. In short, we can think of the task of corporate reform as carrying out a transition from the financial conception of control to the “ethical conception of control.”

In the ethical conception of control, corporate managers would try to produce profits without imposing costs on their employees,

their suppliers, their customers, their investors, or the communities and environments in which they operate. Firms would also avoid cutthroat competitive strategies designed to gain short-term advantage at the expense of other firms. Top managers of the ethical corporation would accept more reasonable levels of compensation, and any bonus schemes would be tied to the firm's long-term performance. The hallmark of the ethical corporation would be its longer time horizon; its managers would constantly be asking whether their way of making profits is sustainable over five, ten, or fifteen years, or whether it will have destructive consequences for communities, employees, the environment, or public health. And they would ask these questions of their global operations as well.

Institutionalizing the ethical conception of control requires two critical steps. First, we have to persuade the public that this is how corpo-

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rations should operate. Second, we need to create a legal framework that would hold firms to an ethical path. Since firms will always be tempted to pursue unethical shortcuts to profits, the structure of corporate governance and the regulatory framework must work together

to create powerful restraints. These two steps could be achieved at the same time through a long-term corporate reform strategy based on the reality that corporations are chartered at the state level.

The initial step would be for labor and other corporate reformers to work together to mount a broad public campaign designed both to raise the public's consciousness *and* to get as many state legislatures as possible to pass new laws that would permit corporations to reincorporate as ethical corporations. Model statutes, developed by reform lawyers, would revise existing laws governing incorporation, fiduciary responsibilities, executive compensation, enforcement, and related areas, to create a legally binding structure for ethical corporations. State legislatures should be willing to pass these ethical incorporation laws because incorporation under the more demanding rules

would be strictly voluntary. Existing firms would be free to continue operating under the older, ethically problematic statutes. Hence, claims that the new laws would lead firms to shift their incorporation to other jurisdictions would not be credible.

But those firms that do agree to be rechartered under the new ethical incorporation statutes would have a different governance structure and different legal obligations than conventionally incorporated firms. (See box with outline of possible ethical incorporation principles.)

There would be, for example, limits on executive compensation, a requirement that members of the boards of directors be representative of different stakeholders including employees, agreement on card check neutrality in union organization campaigns, acceptance of

higher public disclosure standards, agreement on monitoring of overseas operations, development of environmental plans for conserving resources and reducing various forms of waste, and commitments to protecting public health. Moreover, the new rules would make it easier to prosecute executives of ethical corporations for malfeasance.

When enough states had established these new statutes, the next phase of the campaign would begin. With the public mobilized against ethically challenged corporations, the focus would turn to persuading those ethically challenged firms that they need to change to ethical incorporation. Several types of persuasion are possible. First, public campaigns could be organized to force a shift by firms that have track records of unethical behavior or that operate in particularly sensitive fields such as health care provision or insurance. These campaigns would use all of the familiar tactics of corporate campaigns including consumer boycotts, noisy demonstrations, and pressure on key corporate investors.

Second, state and local governments could give preference to ethically incorporated firms in the awarding of contracts, because these firms would be better for the economic health of the community. Third, prosecutors and judges might include mandatory ethical reincorporation as part of the penalty when ethically challenged corporations are found to have violated the law or are reorganizing to leave bankruptcy.

As a growing number of firms begin to operate under these new ethical rules, they would be living proof that the ethical conception of control is both viable and profitable. Moreover, with their long-term horizon, their

improved corporate governance, and reduced compensation of top executives, these ethical firms would provide more stable long-term returns for investors. Once the investor com-

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munity became convinced of the superiority of this new type of corporation, ethical corporations would have the additional advantage of lower costs for raising capital. Eventually, a shift in perception among investors would create a cascade that would force most firms to reincorporate on the new basis.

Furthermore, building powerful political coalitions to get state legislatures to pass the new legislation and then to pressure corporations to recharter could help place labor at the center of a new progressive movement. Strong working alliances would have to be built with environmentalists, minority communities, religious groups, and a variety of middle-class reform organizations. These alliances could then be used to fight for other necessary reforms such as shifting government spending priorities, and changing U.S. foreign policy.

RATIONALE FOR THE REFORMS

HAVING CORPORATIONS THAT ARE MORE ETHICAL and, more respectful of government regulation is obviously desirable, but how do we know that such firms would be the basis of a stronger economy? There are three basic reasons:

1. Improving corporate decision making

In an article called “The Promise of the Governed Corporation” (*Harvard Business Review*, March 1995), John Pound makes the important distinction between the managed corporation and the governed corporation. The former perspective mistakenly assumes that management is a technical skill and that good managers will know how to make good decisions. The latter perspective assumes that running a large corporation is similar to running a country; choices are complex and difficult and the best way of assuring high quality decisions is by a political process in which options are debated and multiple viewpoints are heard.

So, whether the decision is about entering a new line of business, pursuing a merger possibility, or investing in a risky new technology, the governed corporation would make consistently better decisions than a comparable managed corporation.

The diversified board of directors that is part of ethical incorporation is designed to assure that firms will be effectively governed. The presence of employee representatives on the board of directors will do three distinct things. First, it will greatly improve the flow of information to the board; employee representatives will assure that board members are aware of problematic procedures and practices within the firm. Second, employee representatives will help shift decision making towards the long term, since the employees have a strong interest in assuring their own future employment. Finally, the fact that no single constituency controls a majority of the board members assures a process of deliberation to determine the best possible choice. The presence of “public board members” with financial and accounting ex-

pertise is designed to provide an additional check against cooking the books and other financial manipulations.

2. Establishing the corporation as a productive community

When employees feel more valued, they are more likely to work harder and smarter. The great weakness of the me-first corporation is that as top executives command a greater and greater share of the firm’s resources, other employees are likely to experience greater job insecurity and greater cynicism about the firm. Ethical incorporation is designed to restore higher levels of employee commitment by recognizing employees as key stakeholders in the firm who have the right to speak out and be heard on issues of corporate governance. Moreover, higher levels of employment security will serve to persuade employees that they will also be beneficiaries of improved productivity and firm performance.

3. Reducing waste in the economy

Our economy currently performs way below its potential because wasteful and inefficient practices have been institutionalized, and corporations have used their political clout to lock in these inefficiencies. Millions of our citizens are unemployed, underemployed, or employed at jobs that provide few opportunities for mobility or skill development. Moreover, more and more people face economic obstacles when they seek access to higher education or training in specific skills. The resulting waste of human resources undermines both our quality of life and the productive potential of the economy.

Similarly, powerful corporations have blocked our society’s necessary transition away from dependence on fossil fuels. This involves

enormous waste in financing oil imports, and continued environmental degradation. We have also been denied the economic dynamism that would come from accelerating the development of renewable energy sources.

In short, a shift to ethical corporations would pave the way for economic policies that use our society's resources more effectively. For example, instead of auto companies using all of their political muscle to block improvements in energy efficiency, we can imagine reformed firms working together with government, labor, and other groups to find new ways to conserve resources. Similarly, we could adopt policies that expand opportunities for skill development across society, allowing our entire workforce to "work smarter."

If unions were to take a key leadership role in this kind of campaign for corporate reform, there would be a number of important benefits. It would immediately send a powerful signal to corporate managers that they are being watched. It would also represent a frontal assault on the market fundamentalist dogmas that the Right has used so successfully. The public is already highly suspicious of cor-

porate greed. To give political direction to this sentiment is the best way to undercut the Right's arguments about regulation and taxation. Furthermore, by establishing a model of the ethi-

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cal corporation that is responsible in its relations with its employees, its environment, and its customers, we help to establish a vision of a society in which the market has been reconstructed to serve social needs. Finally, the labor movement would again show itself not to be a "special interest" but a force fighting to create a just and fair society for all. ■