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1992: A New Challenge to the Social Role of Business

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1992: The Scope of the Current Debate

The discussion about potential benefits as well as costs of the creation of the internal market of the European Community is currently pursued in the general public as well as in professional circles. The wide range of issues can be basically classified as internal or external: (1) developments and impacts in the EC; and (2) concerns and opportunities raised in the external relationships of the post-1992 Europe. The implications for all three levels — macro, meso and micro — are being explored, with different groups placing different emphasis on each level. Most of the discussion in academia covers macro effects and structural implications on the meso level. Micro strategies and development tend more to be the subject in business meetings, seminars, and trade journal articles.

Among the internal effects, the macroeconomic consequences for the member states and the EC as a whole are extensively covered in the Cecchini report which, despite all the ambiguities and difficulties of those estimates, can at least serve as a good basis for further discussion. On the macro-social level, however, there is far less discussion beyond the general claim being made for a social agenda. Aside from such issues as integrating tax laws and administrative procedures, people are posing questions like: How much integration of health care systems, national retirement concepts, unemployment and social security benefits is necessary for the Common Market to operate effectively?

Other questions raised in this context are: Will there be a significant reduction in union power due to different bargaining positions and the low degree of common preferences and interests in the still dominantly national union structure?

Or — to use a third and final example — How much participation will be given to which constituency group in the future governance structure of corporations? If differences are maintained for a long time, will companies tend to register predominantly in countries with little or no participation of constituency groups? This would put significant political pressure on countries with elaborate systems of constituency participation and co-determination, such as the Netherlands and the Federal Republic of Germany.

On the microeconomic and meso level of firms and industries, most of the discussion is focusing on the need for strategies to survive and grow in the enlarged market of 320 million consumers: how to survive as an individual company in the large and open internal market? What is the appropriate strategy for whom? Some are strongly suggesting a "big is beautiful" strategy, leading to mergers and acquisitions across borders. Others feel that a more appropriate approach is "small is beautiful," seeking specialization with increased internationalization.

With respect to external relationships of the Community, the "fortress Europe" discussion is dominating the academic treatment and popular publications. A contributing factor to this discussion is now the recently perceived need to support, or potentially even ultimately integrate, the Eastern European economies. Concerns regarding the "fortress Europe" scenario, as specifically raised by industrialized countries outside the Community and the developing world, are only partially addressed by European Community and national political leaders. They usually simply give general assurances that such a development will not occur.

The micro correlates to the "fortress Europe" discussion are hardly developed at all. Questions like: Should a company locate new production facilities inside the Community, or should it continue its investment in the developing world?

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How much of a corporation's expectations in terms of productivity and markets should be linked to the Eastern European countries? These and similar strategic options on the level of the firm which deal with the external relationships of the Community are rarely mentioned and hardly ever treated extensively in reports and research papers.

The Social Dimension of Business: The Neglected Theme in the 1992 Discussion

What seems to be completely missing is any discussion of the social role of the business firm in post-1992 Western Europe. There is a lack of vision for the corporation beyond simple competitiveness.

What are the constituencies, the responsibilities of business in this immensely large but quite diverse agglomeration of consumers, workers, capital, governments, cultures, and environments? What are the expectations and aspirations of these groups and institutions? How should a firm — especially a large and powerful one — define its responsibility and build stable relationships with its multidimensional environment?

Such questions are gradually beginning to be recognized by innovative business leaders and are emerging as subject areas, for example, in the context of the growing interest in the international dimension of business ethics.

The Enlarged Business/Society Paradigm: A Theoretical and Conceptual Basis

Before suggesting some answers and raising even more questions for discussion, one should briefly review the conceptual and theoretical basis for discussion on the emerging social role and responsibility of business in Europe. There are unique dimensions which the process of integration is bringing to the social role of business and there are several strategies which business could use to meet challenges and cope with new demands.

The business firm is conceived as a multi-constituency, multi-responsibility, social-economic entity integrated into different but interrelated economic, social, and political markets. It is trying to recognize the diverse interests in these different markets and to perform its basic functions by balancing out the various interests with an eye to assuring long-term survival, growth, and acceptance by its environment.

The various elements of the business and society paradigm — as the field was named by Lee Preston in his fundamental evaluative article in the *Journal of Economic Literature* in 1975 — are integrating the knowledge of a wide range of disciplines and research fields. Central to the effort to understand the new challenges to the social — or more specific perhaps — the non-short-term, non-financial performance in the post-1992 environment are the following: stakeholders and the concept of multidimensional markets; organizational perceptions; and institutional learning and adaptation.

The *stakeholder concept*, as described most extensively by Ed Freeman, argues that specifically the modern corporation should be seen as linked to a wide range of constituencies and their various and often divergent interests. Some of these constituencies are those of traditional relevance to the corporation: shareholders, customers, employees, unions, governments, suppliers, banks as the most obvious examples. Others are new, at least to most managements: environmentalists, other activist groups, the arts and the sciences, religious groups, local communities, to mention only a few.

Some of the constituencies are highly structured and organized. Others are more fluid and less structured. Some express their interests quite coherently, and are therefore easily recognized by corporations. Others speak with different, only loosely coordinated voices, so their interests and needs are difficult to assess. Some of them link up with organizations traditionally representing business interests — employers' organizations and unions are the most prominent examples. Others seem to be on their way to establishing *conventionally* structured relationships — the environmental movement might be an example. Yet others are completely or nearly unpredictable in appearance, spontaneous in their actions and diverse in their demands and expectations. They may be coming and going but could be — temporarily at least — more important to the corporation than the traditional and established constituencies.

These constituencies as a total form the multidimensional markets in which the corporation is

trying to optimize its strategies. In some dimensions of the market, money is the currency of exchange. In others, political pressure and social actions are the instruments. Numerous studies have explored the interrelationship between the different dimensions, for example environmentally responsible behavior and long-term profitability via the public image dimension. Some of these relationships are weak, others are quite strong.

Organizational perceptions encompass the ability of the company as a whole to recognize changes in its environment relevant to its long-term objectives. Those perceptions are quite selective, for they are formed by the history, past experiences, leadership, and culture of the company. Corporations in the same or similar environments often perceive their environment quite differently: one company may perceive developments which the others do not see at all or interpret as quite different signals.

Especially new and amorphous constituencies, with unfamiliar demands, operate quite often with significant power and strength in a firm's environment before being recognized. Some corporations have developed "organs of perception" — as labelled by I. Prigogine — to see the usually "unseeable." Others try to nurture a culture of change to keep their perceptional filters flexible.

Institutional learning and adaptation refers to the ability of the firm as a whole to adjust established perceptions, strategic goals, and behavior patterns — as well as myths, rituals, and symbols — to adapt to changes in its environments. Changing those factors usually means altering deeply internalized experiences from past successes. This objective is extremely difficult to pursue, especially in or after periods of long-lasting success, because these are the very strategies that are re-enforced as being "right" over and over again.

Adaptation to newly emerging stakeholders outside the existing perceptional filters is an example of such a learning process. When profound changes are involved, a severe crisis may even be required in order for the company to discover the need to learn. A new vision and perhaps new leadership are also often necessary for major change to occur.

1992 and the Social Role of Business: Tasks and Strategies

How are these briefly sketched concepts of stakeholders, perceptions, and learning linked to the social role of the business firm in post-1992 Europe? The *general thesis* here is that due to the 1992 process the environment of business firms is becoming far more complex, thereby requiring profound changes in perceptions and significant efforts in "learning to learn." It, therefore, poses a qualitatively new challenge to the management of the business/society interface.

Specifically important in this context is the decision by the EC to alter the overall regulative pattern. It is now putting significantly less emphasis on harmonizing all the standards, rules, procedures, and regulations of the member countries. Instead, it is applying — beyond some common standards regulating the very basics — the principle of mutual recognition. As a consequence, diversity will be a far more dominant feature of the EC than of any other large unified market.

On the one hand, this concept provides firms with an element of stability in their environment. Once a product or behavior is acceptable to one of the still dominant national regulators, it is in general, acceptable for the Community as a whole. On the other hand, there is an element of instability as well as complexity in this process, too. Instability, because the principle of mutual recognition applies mainly to the highly structured and formalized stakeholders. Newly emerging, highly unstructured, amorphous constituencies, like religious groups, environmentalists, consumer groups, and other grass-root movements that may operate in one or several member countries, might not feel at all obliged to accept this principle. Therefore, experiences made thus far by a fairly small group of transnational companies are quite likely to become a more common aspect of the environment for significantly more companies in the EC.

This potential causes not only instability but also increased complexity. Demands, expectations, and aspirations are more diverse and are often expressed by using quite different forms of the voice option than traditional stakeholders

have done in the past. The new transnational stakeholders may also form networks of coalitions on issues and actions in ways that are difficult to understand. Furthermore, issues may be raised in regions far away from the actual or perceived problem and by groups whose relationships to it are not obvious at all.

Yet another element of complexity is the actions that are increasingly undertaken by the various EC institutions — parliament, administration, the European Court — which will gain power and importance in post-1992 Europe. In accordance with their charter and interest, they will pursue policies of their own. All these likely developments suggest that the post-1992 environment for the European business community will be filled with new constituencies, new strategies, and a far higher degree of complexity.

If this outlook is seen as a challenge not as a threat, how well prepared is business to deal with it? It seems to be most likely that only a tiny minority, i.e., those firms having traditionally not only an international dimension in their operations but also in their culture are prepared for such a situation.

In the overwhelming majority of organizations, however, perceptions, goals, and behavior are dominated by long-term experiences of success in mainly monoculturally formed strategies. Most business corporations had significant difficulties to perceive the existence of new stakeholder groups even in the far less complex national environment. Thus far, few managers have learned to recognize these stakeholders as an important element of their environment and to develop strategies to deal with them in the interest of their own long-term survival and growth. How difficult must it be to adjust perceptions, views, and strategies to the even more complex post-1992 environment!

What could theory and experience teach business in such a situation? Is there knowledge available that firms could draw upon to adjust successfully to and even profit from these developments?

The basic first step for corporations in trying to adapt to the situation is to subscribe fully to the multiple stakeholders/multidimensional markets concept. Just ignoring unfamiliar and strange constituencies seems to be quite costly, as a lot of widely researched case study material indicates. Monitoring stakeholders, engaging in social and political forecasting, establishing stakeholder relation groups as organized units, and linking those devices to a European network of "sensitizers" or "organs of perception," as well as staffing them multiculturally, are approaches suggested by relevant research.

Cooperating in the operation of a "Euro-stakeholder-monitor" could also help companies to share the financial burden of such efforts. Strategies for altering perceptions to understand the issues and their relationship to other elements of the multidimensional market could also benefit from results generated in the framework of the business/society research. The appointment of outsiders to the corporation, to dominant political, social, and cultural supervisory boards; the development of a multi-cultural top and middle management structure; and the cultivation of network-relationships to a wide range of communities, can be seen as relevant strategies. Reporting extensively on social, environmental, political, and cultural impacts of the company's operations and products, as well as performance, helps to structure communication with a wide range of stakeholders.

1992 — A Challenge, Not a Threat, to the Social Role of Business

All these strategies can help create a culture of openness and learning that can promote the ability of companies to survive and grow in the more diverse and complex post-1992 environment. The socio-political role of the European business firm will become ever more relevant and important in supporting the basic economic function of the corporation. Diversity can stimulate creativity, and complexity can be managed and controlled to a certain degree by a number of management tools derived from recent research. If European companies can use some of the measures presented above to "learn to learn," they may not only cope better with the economic challenge posed to them in the post-1992 era, but should also function well in the more complex socio-political environment.