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***Theoretical and Empirical Interrelations Between Corporations  
And the Surrounding Society Beyond Operative Business***

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**I. Introduction**

A great part of German business history is led by homogeneous methodological and theoretical concepts: In many cases companies are considered as limited, economic entities. The understanding of corporate existences, structure and functionality is closely linked to this line of thought as well. Question on how and why companies do act focus exclusively on internal phenomena and contexts. Pierenkemper argues with an economic core of companies and pledges for the use of an economic theory of action. Recently, considerable amounts of case studies that analyse and explain corporate action based on the new institutional economic approaches have been established in business history. This theory focuses on principal-agent and property rights issues. Therefore the research interest concentrates on internal aspects – especially issues of efficiency. One of the advantages of new institutional economics lies in its compatibility with and connectivity to other disciplines like the social and cultural sciences. With the aid of its instruments aspects such as corporate culture can be analyzed. However, the theory of new institutional economics still explains internal processes and functioning through inner contexts, especially institutions that are supposed to limit institutional action.

To sum up, in the last 20 years we can identify a trend towards a variety of conceptual and theoretical approaches dealing with corporate behaviour and functionality. Its explanations and analysis patterns concentrate on internal processes.

First attempts that show how socio-cultural contexts and corporate action are interconnected have been recently made. Hartmut Berghoff (2006) argues to consider business history as societal history. Markus Raasch (2007) shares similar intentions writing a mentality history of the City of Dormagen. The local factory side of Bayer serves him as case study. However, these research examples lack a theoretical-based embeddedness.

**II. Possible theoretical approaches**

We pledge for an interdisciplinary business historiography that uses concepts from humanities, social and cultural sciences. In addition - these concepts should aim at analyzing corporate action under the condition of its social embeddedness. According to our understanding the neoinstitutional theory serves very well as an instrument to integrate and

implement social expectation structures. The concept of civil society offers a possibility to question corporate action beyond the argument of rational behavior, which is generally symbolized by the „homo oeconomicus“.

### **III. Neoinstitutionalism**

The key argument of neo-institutional theory is: Existing institutions within the environment of organisations have a lasting impact on the form of organisations. Institutions are considered to be institutionalised rules, expectations or belief systems or rather a scheme for interpretation and therefore seen as structures of social expectation. That is why one expects defined operational scripts within social and historic situations of companies. Accordingly, belief systems and an understanding of reality of certain historical contexts move to the centre of analysis in order to understand corporate action. After debates within companies reflecting on their institutional and cultural environment, processes of institutionalisation and de-institutionalisation of organisational forms, concepts of management and general practices occur. In our context we would like to ask the following questions: Firstly, how can theory be represented within the framework of historical processes and altered social structures? Secondly, which incentives can be found in order for the company to react to changed social structures and expectations?

Paul DiMaggio and Walter Powell describe social structures as “organizational fields”. Only recently the entire relevant environment of organisations has been included in the analysis of inner corporate action. That is to say, all individual and collective agents who influence behaviour and the need for survival of a certain organisation. Public authorities, agencies and social movements are included in the analysis and are considered as part of the organisational field. Andrew Hoffmann has described this expanded concept as “centers of debates in which competing interest negotiate over issue interpretation.” The organisational field itself constitutes the institutional and cultural context of organisations. I would like to define culture with the support of a theory of culture, which is domiciled in Constance: Culture is not only responsible to cater for meaning and legitimacy of social states. Culture should not be induced to ensure social consensus. But it comprises the continuum of all divergence of practices and bears an overspill of possibilities without which societies could not sufficiently react flexible to inconsistency and contingency. Therefore the role of a company as part of the organisational field is due to the inherent dynamic of the field in constant move. A multitude of singular phenomena, which all have their own logic, belief systems and expectations have impact on organisations. They are the reason for the business historian to identify each phenomenon and the ever-changing organisational field in its historical context as well as to analyse the historical dynamic of the organisational field

and the impact on companies. Yet the question remains why companies act according to these specification.

The economic sociology tradition within neo-institutionalism turns away from simple economic models of action. That is, not the efficient control of institutional arrangement from within is relevant to the survival. Instead an institutional and cultural construction of rationality and efficiency as well as the potential for legitimacy of practices and structures, which are considered to be natural, normal and appropriate, become prominent. The survival of an organisation depends on its legitimacy. Yet legitimacy is not a particular resource, which can be incorporated into transaction relations. Legitimacy is an essential condition in which societal values, normative expectations as well as general rules and laws are reflected. Thus economic and rational action becomes rational action within cultural boundaries. This is due to the understanding of legitimacy as legitimacy is always ascribed externally. External ascriptions are aimed at the action of the social construct 'company' within the scope of a persisting topic in the organisational field. The expectations and ascriptions then become part of a notable value, norm, and belief system in regard to the ability of a company to take action.

After strong criticism an agent who reflects on his institutional and cultural environment and acts in his own interest replaced this very much socialised agent: "Akteure sind in der neoinstitutionalistischen Organisationstheorie keine Trottel – According to neoinstitutional organization theory actors are no fools" (Peter Walgenbach). This self-interest, as it is emphasised, does not correspond with assumptions of the model "rational choice of action". Particularly the universal paradigm of economic theory is under criticism, as the economic rationality and the utility maximization is only one possible social construct and therefore historically and culturally bounded by rationality.

#### **a. Case study: Change of action in risk management**

My research has shown that logical action, institutional arrangements and attitudes towards risk management in production do matter. Bayer has shown its dependence on interaction between the company and its environment. Historic and cultural expectations and institutional framework were greatly responsible for inner institutional change. The acquired sources originate from all hierarchies of the company and range from the technical to the organisational departments as well as all internal corporate communication. External expectations were reflected and internal organisational and management structures were adapted to uphold a persistent legitimacy.

Until the 70s incidents were understood as risks, which have become apparent, moreover, as collateral damage. The aim of incident prevention was mostly aimed at the protection of employees and equipment and not at the surrounding society and environment. But such a

public perception evokes a disturbance in the relations between the company and its natural and cultural environment. Such a disturbance in relations can be observed since the 70s. Companies had too much influence on the interpretation of risks of producing chemicals. The organisational field expanded with the shifting of perspectives towards protecting nature and environment. A new societal movement occurred in which a new understanding of what should be protected was established and accordingly a new assessment of risk was undertaken. With this movement a technical and corporate criticism arose. The criticism ranged from more general measures in order to protect the environment to general criticism of the capitalistic economic system of the Federal Republic of Germany. Companies saw themselves confronted with a new set of informal rules.

Companies of the chemical industry were deprived of their legitimacy regarding their mode of production. This caused an internal change of the institutional arrangements within few years. Constant processes of renegotiation with the corporate environment as well as internal processes, which also often caused a lot of conflict, led to a new culture of safety. The ascriptions constructed by the cultural context shifted from the idea of the company being an economic saviour during the times of reconstruction towards the company being the destroyer of nature and cultural environment. The change of action in risk management therefore becomes a cultural

#### **IV. Corporations as Actors of Civil Society?**

In recent years there has been an increasing debate on the social role and responsibility of companies. In the line of implementing concepts and elaborating strategies of Corporate Social Responsibility (CSR) companies describe themselves as actors of civil society. Consequently, one needs to ask the question: How far may the concept of civil society be useful to explain corporate action that is to be summarized as corporate responsibility. Starting point is the hypothesis that socially orientated activities or projects in the realm of CSR (e.g. environmental protection projects) are initiated despite the fact that marginal costs are often higher during its implementation than the average costs.

The concept of civil society is lately defined by a combination of sector and interaction approaches. That means recent definitions of civil society are connecting a certain social sphere with normative requirements of action. That means, civil society is understood as the sphere between state, economy and private sphere, which can be characterized by a minimum consensus of values such as responsibility, tolerance, fairness and non-violence. The historian Jürgen Kocka, important representative of this concept in his discipline, points out three equal dimensions of civil society.

*First*, he defines the terminus as a type of social action that (1) aims at conflict, compromise and understanding, (2) emphasizes individual independence and social self-organization, (3) tolerates plurality and difference, (4) that operates non-violent and pacific, (5) and that deals

with general issues as well. *Second*, this type of social action is to be localized in a certain sphere between state, economy and private sphere. By characterizing civil society as a self-organized, dynamic public sphere he hints at the field where clubs, associations, social movements, networks and initiatives are present. *Third*, civil society is characterized by a normative-utopian element.

Each of the different spheres is characterized by a specific logic of action (market based, policy oriented and civic). Central aspects of the market are: exchange, individual utility maximisation, calculus with opportunity costs – all according to the idea of “homo oeconomicus” whereas civil society is characterized by responsibility, conflict, comprehension, participation, and engagement. According to Kocka, the idea of civil society offers non-market problem solutions.

Besides the separation of civil society and economy by definition, Kocka deals with certain border-areas and certain overlappings between those two spheres. Consequently, in this conception you find an ambivalent understanding of the relation between economy and civil society. The antagonism of both spaces creates a certain tension between them. But Kocka modifies his strict separation by saying: If companies adopt a modus of action that belongs to civil society they can also be considered as actors of civil society.

Mutual interdependence causes some kind of affinity. On the one hand, market economies have prospered due to civic structures because they are based on resources such as social connectedness, trust, and social capital. On the other hand, economy has pushed developing civil societies forward.

Although we follow Kocka's definition combining a type of social action with a certain social sphere, his conceptions regarding logics of action are quite problematic. His definition of "market-logical" assumes an ideal type of economic actor. It is doubtful that this idealized concept may be proven by empirical research. We argue that it is preferable to supplement the concept of civil society with responsibility concepts after the Second World War. From a conceptual perspective many academic responsibility concepts follow a behaviour pattern that is very close to Kocka's definition of civil society. Established concepts are voluntary company benefits, environmental protection, sustainability, corporate social responsibility and corporate citizenship.

#### **a. Case study: Corporate Responsibility Concepts**

Taking the Bayer AG Leverkusen as an example I can show, that corporate action and understanding adapts to a dynamically changing corporate environment. The corporate conception of responsibility also follows this pattern.

My research roughly came up with the following results: During the post-war period until the end of the 1960s the company emphasized voluntary company benefits implemented

according to the necessities of employees during post-war conditions. In the 1970s Bayer focused on the wide realm of environmental protection. This development is due to an increasingly critical public attitude towards environmental issue. Reasons are for example the proceeding forest decline. The chemical branch was exposed in particular due to several chemical catastrophes like the Seveso case in 1976. Since then, environmental protection was and stayed one of the core topics of responsible corporate behaviour. However, certain aspects changed or were amended over time such as the concentration on air or water pollution, sewage water conditioning, recycling (*corporate action*) etc or sustainable aspects (*corporate understanding*). Since the beginning of the 1990s, terms like Corporate Social Responsibility or Corporate Citizenship are picked up in internal and external company communication. One of the reasons for this development might be the increasing usage of PR (public relation) agencies that are specialized in this realm. The political and public discussion brings up these concepts as well. The so-called "new" concepts fulfil a new function as marketing instrument or as possibility to confront the remodelling of the welfare and social state through company commitment. In many cases the implementation of socially orientated projects is not closely connected with the core business. Measures concerning environmental protection are often linked with high acquisition costs and are mostly not profitable at the initiation. That means - at least in their origins - they might not exclusively follow (in Kockas terms) market logics, but civic logics. But corporate social commitment not necessarily follows civil society aspects. Considering criteria of legitimacy or the company's licence to operate, most responsibility concepts that follow society's expectations contribute to a corporate long-term success.

## **V. Conclusion**

Our research has come to the following conclusions: If one wishes to write a modern corporate history, which also incorporates relations between companies and society, we need new concepts. These concepts need to be dynamic in itself and adaptable to a historical perspective. This can only be achieved if we accept the above presented understanding of companies. That is to say, action of companies is dependent on the cultural context thereby explaining modern and flexible companies.

## **VI. Literature (selection)**

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