Restarting History: Why the global labour movement must challenge the 'corporate theory of society', and how it might go about doing it.

Paper for presentation at the Global Labour University Conference, 14-16 September 2010, Berlin

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September 2010

Abstract
The call for papers for the GLU conference observes that we live in a society dominated by what it calls 'the conservative view that today's world is by and large the end of history'. In this paper we want to suggest that the substance of this conservative view can be summed up in what we call the 'corporate theory of society'. This theory involves two related basic proposals. The first is that market forces are objective, autonomous and meaningless in a similar way to the forces of nature. The second proposal is that management is the non-political, technical practice of interpreting the demands of the market and translating them into effective organizational structures and strategies. Together these ideas form an essential part of the 'background consensus' that underpins both the practice of business and public policy-making on the economy, employment and industrial relations.

The paper argues that the corporate theory of society is what supplies the 'rational' justification for the power that corporate executives wield within contemporary economic, organizational and (consequently) social life. If we accept that the imperatives of the market should be conceived as analogous to those of the natural world, then we are also obliged to accept that responding to them is not a question of what is normatively legitimate, but of what is technically effective. From this perspective, the ethical and political aspects of corporate decision-making fade out of view, allowing management to appear no more political than chemistry or engineering.

Through the lens of the corporate theory of society, trade unionism is at best an irritant, and at worst a politically-motivated challenge to the disinterested professional practice of management. It is crucial, therefore, for the global labour movement to be able to mount an effective critique. The paper identifies the key points at which the corporate theory of society is vulnerable, but also argues that the response of the global labour movement cannot be focused on the traditional union strategies of organizing, bargaining and regulation. Rather, the long-term goal of trade unionism must be the development of radically democratic approaches to

economic and industrial management centred around positive worker participation in decision-making and the abolition of hierarchical employment relationships.

The Social Compromise vs the Corporate Theory of Society

The US economist Sumner Slichter once suggested that 'the kernel of the problem of industrial control' was 'how to prevent industry from unduly molding our opinions, how to prevent our ideals, our scales of values, from being too much affected by the standards of the market-place, how, in short, to protect life itself from being too completely dominated by the process of getting a living' (Slichter 1931, cited in Kaufman 2004, p.109).

The argument we want to propose in this paper is that the twentieth century gave rise to two different ways of resolving this problem that reflected very different underlying assumptions about the mechanics of economy and society. These assumptions, in turn, had very different implications for the calculation of the appropriate balance between effective business strategy and social values and ideals.

The Social Compromise

For the twenty-five years following the end of the second world war, there appeared to be a broad consensus about how to resolve Slichter's problem, a consensus Crouch has called the post-war 'social compromise'(Crouch 1999). In most of western Europe and to a certain extent also in the USA, the welfare state, Keynesian economic policies and, above all, the determination of pay and working conditions on the basis of collective bargaining between unions and employers were accepted as the sine qua non of the modern approach to the regulation of the economy. While there was significant cross-national variation in the institutional forms to which this policy approach gave rise,[1] the most basic underlying assumptions were shared: on the one hand, that the values and interests of workers and those of the owners of capital and their agents in management were conflicting; and, on the other, that the two sets of values and interests were equally legitimate and their pursuit equally important to society as a whole. Investment, competitiveness and growth were important aspects of the public interest, but so were fairness and security for employees. In itself, neither set of values and interests could be deemed to be representative of the general good.

Given these assumptions, the only rational way to proceed was for each of the parties to participate in the negotiation of a modus vivendi based on a realistic appreciation of the social, political and economic weight of the other. There were

[1] The divide was principally between the more voluntarist 'anglo-saxon' models and the more regulated and institutionally dense neocorporatist models (Schmitter & Lehmbruch 1979) that were typical of continental Europe. In the first case, regulation of the labour market was achieved mainly on the basis of relatively decentralised bargaining in which the emphasis was placed on union organization and action in the workplace. In the second, it was achieved via statutorily-grounded, centralised institutional bargaining processes.

both pragmatic and normative reasons for this. Pragmatically speaking, neither party could have everything it wanted because getting everything it wanted would mean sacrificing the cooperation of the other side without which it could not have *anything* it wanted. From the theoretical perspective of the functionalist sociology that informed this 'pluralist' position (Kerr 1964; Fox 1966), this meant that the idea that the situation could be optimal from the perspective of either workers or employers was illusory. Instead, the maximization of organizational effectiveness in practice depended on finding a joint optimization of decision-making along both an economic/technical dimension and the socio-political dimension of workers' interests. From the normative perspective, on the basis of the most fundamental principles of natural justice and democratic self-determination, it was clear that workers were entitled to at least equal participation in the making of decisions that had an impact on their values and interests. Collective bargaining, whatever its precise institutional form, was therefore understood both as a technical process by which the optimal mode of the organization of production was determined, and as a political process in which the conflicting values of labour and capital were reconciled.

The policy commitment to collective bargaining and unionized industrial relations reflected an underlying theory of society the purpose of which was to resolve certain political problems with capitalism, notably the absence of democratic self-determination for most citizens in the economic sphere. The theory proposes that the technical and political-ethical components of decision-making about the economy and the organization of production are at once conceptually separate and coterminous with the values and interests of two different social groups: those who are obliged to work for a living and those who live by virtue of their ownership of capital. On this basis, solving the 'problem of industrial control' involves institutionalizing the search for an appropriate balance between the 'standards of the market place' and society's 'scale of values' in an ongoing bargaining process involving the representatives of capital and labour respectively. The theory of the social compromise allows the decision to participate in an employment relationship to be conceived as freely made so long as the parameters of that relationship are subject to the agreement of workers acting collectively. Enterprise action and management authority are acceptable to the extent that instructions to employees are coherent with the collective contracts that are the outcome of bargaining. Free collective bargaining is what makes employer authority and worker compliance normatively legitimate in the context of a democratic society.

The Corporate Theory of Society

The problems that prompted the questioning of the social compromise and the emergence of what we call the corporate theory of society were essentially economic. Although collective bargaining was supposed to give rise to the most effective forms of industrial organization that were possible in practice, by the mid-1960s the seemingly effortless economic progress that had characterized the years after the Second World War was already stalling. A sharp decline in the rate of expansion of the market for mass-produced consumer goods led to a shift in the emphasis of management from increasing production to increasing productivity. However, the combination of full employment, effective union organization and the expectation of tangible year-on-year improvements in living standards meant that attempts to cut costs and to increase managerial control over the production process were met with a wave of industrial conflict that was unprecedented in its scale and international scope (Shalev 1994; Brecher 1997). The concession of real wage increases in the context of stagnant productivity growth – whether simply as a means of settling disputes or in return for agreement to changes of dubious value in working practices – had the inevitable inflationary effect.

Throughout the 1970s, policy interventions to revive economic progress – ranging from modest reform of the institutions of industrial relations to the introduction of radical forms of industrial democracy and economic planning – proceeded principally on the basis that the fundamental theoretical approach that underpinned the social compromise was sound, and that what was required was simply a re-balancing or recalibration. However, the persistence of economic crisis and industrial conflict despite these interventions handed the political initiative to the neoliberal critics of the trade union movement. These critics argued that it was precisely the economic policies and structures of workplace governance that had characterized the post-war consensus that were to blame for the contemporary malaise, and that as a consequence trying to fix the existing system was pointless.

While the critics were clear that the solution involved reducing the scope of collective bargaining and limiting the capacity of the unions to resist employer plans and strategies, there was a need to find some way to justify this reassertion of managerial prerogative in a political context in which the democratic right to self-determination was firmly associated with unionized industrial relations. The critics of the social compromise had to provide a means of showing how employer authority could be legitimate even where it was not derived from collective contracts freely negotiated and agreed by organized workers.

What we call the 'corporate theory of society' aims to demonstrate precisely that corporate power is both procedurally and substantively legitimate: that the logic of decision-making is pragmatically and normatively sound; and that the exercise of the managerial right to decide is consistent with valid political and ethical principles.[2] At the core of the argument is the claim that the contradiction between managerial power and the democratic rights of workers and other members of society is unreal in practice. This claim in turn is based on the assumption that managerial action is (in principle) always rationally defensible and hence that the employee consent and community support ought to be available to enterprises without employees having any right to withhold their consent, and without the community having any formal rights of oversight with respect to corporate behaviour. The corporate theory of

[2] The theory as we outline it here has not, per se, been proposed by any corporation or political party. Rather, it is an interpretation and reconstruction of the principles that appear to underpin neoliberal policy argumentation, academic arguments and corporate PR. See (Cradden 2004; Cradden 2005; Cradden 2010).

society makes two basic claims: first, that markets are autonomous, objective social phenomena whose characteristics can be known but not changed; and second, that management is a technical rather than a political decision-making process.

The Autonomy and Objectivity of the Market

The core of the corporate theory of society is the assumption that markets are autonomous social structures that come into being as a consequence of the freedom of individuals to enter or not enter contracts. Since markets are both unavoidable and beyond conscious human control, the only rational attitude to adopt with respect to market forces is to treat them as a fixed element of the environment for action just like the physical world. Like the weather or the sea or the atmosphere, the market is assumed to operate according to a set of rules that can in principle be scientifically investigated and understood *but not changed*. Once we understand how the market works, we can design rational courses of social and organizational action, such as interest rate changes, subsidies, tax breaks, labour laws and so on.

From this perspective there is no sense in which market requirements can be interpreted as political. The structuring effect that markets have on society does not reflect the partial interests of the capital-owning classes but merely certain objective features of the economic landscape that are the case regardless of how much we may wish them to be otherwise. These assumptions can easily be discerned in neoliberal political argument. The British Conservative Party under the leadership of Margaret Thatcher, for example, repeatedly accused the trade unions of wilfully ignoring the inability of corporations to concede just anything: 'Those who negotiate around the table must understand and be aware of the constraints within which they are operating, and must have a responsible attitude to those realities' (Howe et al. 1977, p.7). This obviously implies that the limits of the possible in bargaining are not set by the participants themselves. Rather, the range of settlements which maintain a corporation's conformity with market requirements are not set by what employers are prepared to accept, but exist independently of any agreement that may be reached.

The claim that markets and economies are uniquely objective features of the social landscape is not unique to the neoliberal canon. Quite the contrary. As Andrew Sayer (2004) points out, the tendency for market forces to gain a degree of autonomy from actors' intentions and actions and hence to 'displace moral and traditional norms in structuring society' (p.2) has been identified by, among others, Karl Marx, Max Weber, Karl Polanyi and Jürgen Habermas. Where the corporate theory of society parts company from the critical progenitors of the concept is in adopting an unequivocally positive view of the autonomy of market forces. From this perspective, the market represents *in itself* a source of legitimate social goals. Economic competitiveness is a universal interest and it can only be achieved by responding appropriately to market forces. Hence from the perspective of the corporate theory of society, market goals are by definition socially and politically legitimate.

Depoliticized Management
Closely related to the assumption that market forces are objective and autonomous is the claim that management is at root a technical profession. The argument that managers hold their posts by virtue of possessing some kind of expertise rather than because of a direct or indirect property relationship with the corporation is not a new one. In the 1930s, for example, the founding editor of the Harvard Business Review was already envisaging the creation of 'a body of [business] knowledge comparable to those that existed in older professions like medicine and law' (Stone 1997). In fact, from the end of the 19th century, there had been a steady stream of research and argument that linked successful management with one predominant field of technical knowledge directly related to the production process (Pugh & Hickson 1989; Rose 1978). Some of the principal candidates were rational bureaucratic administration (Max Weber, Henri Fayol), 'scientific' job design (Frederick Taylor), sociological interpretation of the dynamics of the work group (Elton Mayo), or the relationship between organization structure and different types of production technology (Joan Woodward).

The novelty of the neoliberal conception of managerial expertise was both in its disciplinary focus and its scope. Starting in the 1960s, it was increasingly argued that organization structure was or ought to be a function of the environment in which business was carried out (Tom Burns, Paul Lawrence and Jay Lorsch). The emergence of this 'contingency theory' marked an important step towards the redefinition of the core managerial expertise in terms of *exchange* rather than *production*. Rather than being defined in terms of an innerorganizational focus on the design of organization structures and the integration of human and technological systems, the role of management came to be conceived primarily as an interface between the market and the organization. Management is the profession that interprets the objective but esoteric demands of the market and translates them not only into business strategies but also into the organizational structures and practices required to pursue them. This is a highly significant step because it extends the supposedly technical knowledge of management into an area which previously was thought to be a domain of political choice and compromise.

If responding to the demands of the market is by definition a legitimate social action, and if the design and operation of organizations is a purely technical process, the authoritative actions taken and recommendations made by professional managers remain (by definition) within socially established moral and political-ethical boundaries. The ends and values to which the managerial 'ought' refers do not go beyond that which is *already* recognized as legitimate. According to the corporate theory of society, the strategic and operational choices that managers make on behalf of their corporations are based exclusively on a technical assessment of the objective functional characteristics of the relevant market. It may be the case that society has to accept certain forms of organization and certain forms of relationship that otherwise might not have been chosen, but this is a consequence of the market environment, not of the choices made by managers. Hence the corporate theory of society justifies employer authority and worker compliance on the basis that managerial plans and strategies are an expert response to the objective demands of the environment for action in the context of the overarching shared goal of economic success. The question of how to achieve a balance between economic and non-economic values is dismissed. The theory suggests that even posing this question represents a misconception since to the extent that the pursuit of non-economic values requires financial resources, the creation of those resources has to take priority. Wealth creation in turn depends on allowing managers free rein to pursue the courses of action that appear to be the most technically appropriate in the light of their expert knowledge of the functional characteristics of markets.

Objections to the Corporate Theory of Society

In what follows we will consider some arguments that challenge the two basic components of the corporate theory of society: the non-political nature of management decision-making and the autonomy and objectivity of market forces.

Is management decision-making really *technical rather than political?*

Beyond the possibility of 'normal' problems with expert authority like professional conservatism or corruption and other forms of malpractice, there are two major problems with making management expertise the basic principle of organizational governance.

First of all, unlike other technical and scientific specialisms, the professional practice of management focuses on contingent social structures rather than the necessary characteristics of the physical world. When decision-making involves an interaction with the physical world or with technology, it is easy to see that there are technical elements of the 'action situation' that are quite separate from its normative aspects. This in turn provides a useful way of defining the limits of the authority of technical experts. The human immunodeficiency virus (HIV), for example, has certain necessary, objective characteristics which cannot be altered by human will or behaviour (although there may, of course, be some dispute about what these characteristics are). Doctors and biomedical scientists can tell us about the characteristics of HIV and how it is transmitted, but they cannot tell us how we as a society should go about responding to it. Should we put the emphasis (and the corresponding resources) on prevention or on treatment? Should we be spending billions on an all-out effort to find a vaccine, or should we focus on developing social strategies for preventing the transmission of the virus? The scientific or technical evidence only gets us so far. Strictly speaking, making HIV testing compulsory and putting everyone who is HIV positive in quarantine for the rest of their lives is a strategy which is perfectly coherent with the scientific evidence, but it is not one that any reasonable individual would accept. So, although we have to accept properly verified scientific evidence and in this sense we have to accept the authority of technical experts, that is as far as their input goes. The action we take on the basic of the scientific evidence does not depend solely on that evidence. There are a whole series of other factors involved – political and ethical factors – that have nothing to do with science and on which scientists and other experts are no more qualified to decide than any other citizen. To paraphrase the 18th century Scottish philosopher David Hume, science is about what is, and you cannot derive an 'ought' from an 'is' (Hume 2007).

By contrast, social systems can be characterized precisely by the *absence* of any clear line between the technical or functional and the normative. They are as they are only because at some point someone decided that this is how they *ought* to be; that there would be a particular set of rules that determined how participants in the system related to each other. As Weber put it, the functional characteristics of social institutions are as they are only insofar as there is a probability that certain persons will 'carry out the normative order' governing those institutions (Weber 1978, p.49). Similarly, Giddens argues that the rules and conventions which are the basis of social action are inseparable from the functional characteristics of the social structures within which that action takes place (Giddens 1984). If we say that a social structure works in a particular way – that it has this or that set of functional characteristics – we are assuming that the rules and conventions that define that structure are fixed and that the participants in that structure will carry on complying with them. Indeed in most cases, the social value of structures and institutions depends precisely on that consistency. Take the example of a postal service. When we post a letter we expect it to arrive at the address on the envelope within a couple of days. This is not due to any unchanging laws of the universe but to a large number of people all following the same set of rules. Everyone has agreed that they will respond to the actions of other people in a pre-set way. If we go into the post office and buy a stamp, a chain of events is set in motion that, as far as we are concerned, is entirely predictable. But this predictability relies on all of the workers involved in sorting and delivering the post following a coherent plan. The worker at the desk cannot refuse to sell us a stamp without reason, nor can they refuse to allow us to put the stamped envelope in the post box. Other workers are obliged to open the box and to respond to the address on each letter in the appropriate way by sorting the post for distribution, and so on until the letters all get to where they are supposed to be.

Perhaps the most important functional characteristic of the post office, then, is that the input of a stamp and an appropriately addressed envelope will have the output of delivery within a certain number of days. So if our plan of action involves sending someone a letter, then because we understand this functional characteristic, we can see that investing in a stamp and posting the letter is a rational means to pursue our plan of action. The logical structure of the decision to post a letter is no different from the decision to drink some water. Our plan of action is to stop being thirsty. We know that water quenches thirst, so it is rational to pursue our plan by drinking water. The difference between the two cases is that the functional characteristics of the post office are contingent rather than necessary. Stamps could be cheaper or more expensive. Delivery times could be longer or shorter. Certain areas of the country or the world could be excluded from the service. It could be rational, then, not to accept the functional characteristics of the postal service as given and to make plans of action accordingly, but to try to change those functional characteristics. By contrast, there is no way to quench thirst other than drinking water (or some other liquid that is mainly water).

When the expert on mammalian physiology says 'you need to drink water', that advice has a different status to the advice of the expert on postal services who says 'you need to buy a stamp'. In the first case the situation cannot be otherwise and there is genuinely no alternative. In the second, the situation clearly *could* be otherwise, and so the advice of the expert includes the tacit judgement that making it otherwise is too difficult or impracticable or unwise to be considered.

Supposedly objective claims about the nature of social and economic structures therefore have a latent normativity. Certainly, to argue that a social structure *is* a certain way – that it has certain characteristics that mean that certain ways of using or managing that structure are appropriate or inappropriate – is not quite the same as arguing that it *ought* to be that way. However, it at least involves accepting the de facto legitimacy of the system of normative regulation that defines the structure in question. It ignores the possibility of questioning that regulation.

The second problem with management-as-expertise is that the identification of what it is about successful organizations or economic policy interventions that makes them so is not a value-free process. Even the very definition of what constitutes success can be and is frequently contested. Even within the profession of management itself, for example, there are those who argue that the sole legitimate yardstick for corporate success is 'shareholder value', while others point to innovation or brand recognition or even socially-oriented measures of performance.[3] Perhaps the most significant potential for interested interpretation is to be found the very casual attitude to causality which characterises mainstream approaches to management research. Even though it is hardly controversial to argue that the formal organizational structure of an enterprise does not begin to give a full picture of the social relationships which exist within it, researchers cheerfully continue to focus on management interventions alone, correlating effects – in the sense of what enterprises actually do – with only a very small part of the spectrum of possible causes. In a review of the development of organization theory, for example, Lounsbury and Ventresca argue that "as organizational theory emerged as a management subfield, conceptualizations of both social structure and organizations became increasingly instrumental, driven by functional imperatives, and animated by the prominence of narrow exchange approaches to behavior" (2003, p.462). Hence, we would argue that there is a tendency for management researchers both to oversimplify the nature of social organization, and to overestimate the ability of

[3] Wikipedia reports that the former CEO of General Electric Corporation, Jack Welch, who was at one point a prominent supporter of the idea that the aim of maximising shareholder value should guide all corporate decision-making, publicly renounced the idea in a 2009 interview with the Financial Times, calling it "the dumbest idea in the world" (http://en.wikipedia.org/wiki/Shareholder_value; accessed 4/09/2010)

managers to control it. We can represent this tendency as a de-politicization because it exists at the cost of a proper appreciation of how much room there is for choice and variability in organizational configurations and practices.

Contesting the 'normlessness' of market imperatives

There are also two major reasons why the claim that the market is inherently normless is problematic. The first is that detaching the normative in this way obliges us to accept that the efficiency of material reproduction comes first, and that only once its demands have been satisfied can we sit down to consider what can be salvaged from the remains of our social and political priorities. There is no way to include norms and values within decisions about how to organize goal-achievement. At the same time as this kind of economic rationality can appear cruel and inhumane, it is also dangerously seductive since, as Polanyi argued, it allows us to "delude ourselves that destitution and suffering [are] nobody's fault" (Fevre 2003, p.13).

The second problem is that to assume that norms and values play no role in economic behaviour is quite simply wrong. It is straightforwardly untrue that normative factors are incidental or marginal to the functioning of the economy and the predictions of any theory that excludes them are likely to be inaccurate. Kaufman argues that

> it is impossible to separate ethics and economics even on purely 'positive' grounds of prediction and understanding. With incomplete contracts, self-interest can quickly turn dysfunctional and anti-social. Because of bounded rationality, imperfect information and lock-in from fixed costs, economic agents have an incentive to cheat, lie, misrepresent, renege and extort both in the ex ante process of making a contract and the ex post process of contract implementation. This corruption of the economic exchange process can cause markets to self-destruct... Neoclassical economics [also] neglects justice on the grounds that it is a metaphysical concept or non-scientific value judgement. Real people, however, judge economic transactions by not only price but also fairness, and transactions that are deemed unfair lead to predictable negative consequences, such as quitting, holding back work effort, striking and forming a union. (2004, p.108)

Two recent pieces of work add further weight to the argument that there are not just moral but technical dangers in the neoclassical economic orthodoxy. In a paper discussing the possibilities for a theory of innovation, William Lazonick (2003) argues that markets are an outcome rather than a cause of economic development. It is organizations rather than markets that allocate resources to those innovative production processes that generate economic development. Whereas the conventional theory of the market economy would have it that "participants in the economy have no possibility of strategically changing the technological and market conditions that they face…[,] the strategic transformation of technological and market conditions is what innovation is all about” (p.24). Lazonick characterizes the innovation process as collective, cumulative and uncertain: collective, because it depends on the integration within the organization of the knowledge, skills and effort of large numbers of people; cumulative, because the ‘possibilities for the transformation of technological and market conditions in the future depend on the development of those conditions in the past’ (ibid.); and uncertain, because the processes that can transform the corporate environment to ‘generate higher quality, lower cost products are unknown at the time at which commitments of resources to these processes are made’ (ibid.). On this basis, there are three ‘social conditions’ – which is to say, three characteristics of the business organization – which are necessary for successful innovation. The first is ‘organizational integration’, which means that it is the organization rather than the market that creates incentives that affect how people allocate their skills and efforts within a hierarchical and functional division of labour. The second is ‘financial commitment’, which is the allocation of financial resources ‘to sustain the process that develops and utilizes productive resources until the resultant products can generate financial returns’ (p.29). The third condition is ‘strategic control’, which is insider control of resource allocation as opposed to control by those with whom the corporation has only market relations, most notably shareholders.

Morris Altman’s argument (2002) is that market criteria do not permit a socially rational choice to be made between high- and low-yield work cultures. Having assessed the available empirical research, he argues that there is ‘rapidly amassing evidence that a certain set of work practices yield relatively large permanent increases in labour productivity, yet these work practices are simply not adopted and more often than not resisted by management’ (p.274). These practices include employee participation, co-operative employment relationships associated with a minimally hierarchical management system, a relationship between wages and productivity, and employment security. Altman characterizes these high-yield work cultures as fulfilling Leibenstein’s criteria for ‘x-efficient’ firms, that is, they operate at ‘the outermost production possibility frontier’ (p.278). However, achieving this level of productivity involves opportunity costs and, hence, ‘the x-efficient firm might be characterized by the same average costs as the lower productivity x-inefficient firm if higher productivity and corresponding costs rise in an offsetting fashion. It is, therefore, quite possible that the x-inefficient firms can compete on the basis of low rates of labour compensation and a smaller investment in organizational capital’ (p.280). If this is the case, then it is very unlikely that the high-yield work cultures will be adopted, despite the clear advantage to society in terms of greater per capita output and the private advantage to the workers of higher rates of pay. Altman argues that since it is not employees but managers who determine what the work culture will be, the costs of adopting and developing the new culture, mistrust between workers and managers, and an institutional investment environment that privileges short-run returns are likely to combine such that ‘members of the firm hierarchy may find it utility maximizing to maintain their firm’s competitive position within the framework of the traditional work culture, even if this involves reducing the level of their employees' pecuniary and non-pecuniary benefits or keeping them below what they otherwise might be' (p.283).

The arguments made by Lazonick and Altman both point to the same conclusion: the achievement of certain highly desirable economic outcomes is significantly less likely when non-market aims and values are excluded from the decision-making process. From the perspective of the corporate theory of society, Lazonick's social conditions of innovation and Altman's high-yield work cultures appear as market imperfections or rigidities. Belief in the theory 'tends to render ungovernable those corporate executives and political elites who wield power over the allocation of resources' (Lazonick, 2003, p.38), leaving decision-making exclusively in the hands of those who frequently "do not incorporate into their objective function the utility generated to their employees by higher levels of income and improved working conditions" – Altman's marvellously academic way of describing those managers who simply do not care about the lives of their employees (2002, p.283).

Reintegrating ethics and politics into business decision-making: four conclusions and four propositions

We can draw four conclusions from our discussion so far. First of all, economic and organizational action involves political and ethical *choices.* Decisions about action cannot be derived from the (supposedly objective) demands of the market in some value-free technical sense. Second, the methodological 'reification' of structures like organizations and markets and their subjection to scientific analysis tends to obscure the fact that the social regulation that brings those structures into being is mutable, and hence that their functional characteristics are contingent and need not be taken as given. Third, there is significant evidence that making the right political and ethical choices makes for more effective economic and organizational action. Fourth, the pretence that no genuine normative choice is available to enterprises is what provides social legitimation for the continuing domination of corporations and their executives and the exclusion of workers from business decision-making.

On the basis of these conclusions, we want to make a series of propositions about the future strategy of the labour movement. The first of these is that it must be the goal of the labour movement to ensure that workers are able to participate on an equal footing with employers in the making of the political and ethical choices that market action demands. Obviously, a first step in ending the more or less exclusive control that employers currently have over the economy has to be the recognition that contestable political and ethical choices *are* being made both in the development of strategies for production, marketing and distribution and in the structuring of organizations themselves. One of the great strengths of the theory of society that underpinned the social compromise model is precisely that it allows that enterprise decision-making involves normative choices that may be contested as between workers and employers. As a consequence, it also guarantees the principle that contested choices have to be resolved to the satisfaction of both sides.

The question that arises immediately is why the labour movement should not simply attempt a return to this situation. However, and this is our second proposition, attempting to revive the social compromise model would be counterproductive. Quite aside from the political difficulty involved, there are a number of good reasons why the re-regulation of the labour market – whether via legislation or, the solution preferred in the english-speaking world, via new union organizing strategies – would not in fact significantly increase democratic social control over the activities of corporations.

Perhaps the greatest weakness of the social compromise model is that it assumes that when conflict about the normative choices made by enterprises does arise it cannot be resolved on a common interest basis. It assumes that the values and interests of workers and employers are permanently and incorrigibly conflicting. Any resolution, therefore, can only be achieved via bargaining. This in turn means that each 'side' is left to establish its own priorities in isolation from any consideration either of the values and interests of the other or those of wider society. The result is a compromise that reflects the balance of power between the two sides involved at the point in time at which the negotiations are conducted, together with the skill with which the negotiators play their respective cards. It can never be guaranteed that the outcomes of bargaining will be in the public interest.

A second problem is that collective bargaining has historically involved the demarcation of areas of joint interest, in which the way an enterprise operates requires agreement between unions and employers, and areas of separate interests, in which each side is free to make unilateral choices that the enterprise as a whole is bound to respect. This has always been a difficult line to draw, varying considerably between national industrial relations contexts, between industries and over time. In certain industrial relations systems at certain times, for example, the recruitment of labour and the determination of working methods have been the exclusive preserve of the unions. In other contexts – the contemporary UK comes to mind – this would be absolutely unthinkable.

This historical demarcation is a question of politics rather than principle. The logic of the social compromise model is such that it is difficult to argue that there should be *any* limit on the areas of enterprise decision-making that should be subject to joint decision, but managers are always deeply reluctant to give up those unilateral prerogatives that are theirs by convention and accepted practice, and unions are generally reluctant to make them do so for fear of having to accept joint responsibility for business decisions that go against the interests of their members. The 1970s saw a significant challenge to the demarcation of joint and separate interests arise within the labour movement itself, with claims either for collective bargaining to be extended to cover *all* aspects of enterprise decision-making, or simply for workers' control over industry. While as we noted above, there was some experimentation with extended collective bargaining and other types of industrial democracy during the 1970s and 1980s, the practice of delimiting areas of joint and separate interest remains current in virtually all unionized contexts. Collective bargaining remains highly limited in its scope. This means, of course, that most of the areas of business decision-making that cause fundamental social and environmental problems – relationships with suppliers and retailers, production processes, advertising and marketing strategies, research and product development – remain off the bargaining table.

But even in those areas in which a common interest is recognised, the capacity of each side to formulate its own demands independently, and to have its analysis of the situation fed into negotiations without being discussed or challenged means that the existing power structure in industry is rarely if ever fundamentally challenged. As British IR academic Alan Fox put it in the 1970s, the

> negotiation of order within the enterprise takes place only at the margins. Management and the employee interests do not jointly build up their collaborative structure from the ground floor up. Power and social conditioning cause the employee interests to accept management's shaping of the main structure long before they reach the negotiating table (Fox 1974, p.286).

Finally, bargaining gives rise to systems of normative regulation that inspire minimal compliance rather than commitment and enthusiasm. Bargained rule systems are adhered to not because the rules are valid in themselves but because if they are not adhered to, participants will not get what they want and/or need from the relationships that those rules regulate. There is an incentive for participants to do the absolute minimum required to stay in the game, which focuses the attention of both sides not on what the enterprise is actually doing and whether or not that is a good idea, but on whether or not the other side is cheating. Significant organizational resources on both sides are devoted to running monitoring and control systems rather than getting on the task in hand, whatever that may be.

This brings us to our third and fourth propositions. The third is that the labour movement needs to recognise that there are no areas of business decision-making that are off-limits to worker participation. Everything that enterprises do potentially has an effect on workers and the communities in which they live. Unlike the radical trade unionists of the 1970s, however, we would argue that neither extended collective bargaining nor unilateral workers control are appropriate means of ensuring that social, political and ethical goals and values are respected in enterprise decision-making. The fourth proposition, then, is that the participation of workers in decision-making should be on the basis of positive forms of workplace democracy. Workers should have the right and the duty to participate in deciding what will be done rather than the negative right merely to refuse to accept some decision that has already been taken. The labour movement should be seeking to regulate the behaviour of enterprises from within and not from the outside.

Workplace democracy and the dangers of market action

As we have already suggested, however, many trade unionists are intuitively suspicious of positive forms of workplace democracy. They believe that business organizations can never do the right thing as long as the logic that drives production is profit rather than need. Like Alan Fox, they suspect that power and social conditioning will lead workers to accept managerial definitions of the limits of the possible even where they are not obliged to accept them.

This is a view that needs to be taken seriously, but its principal implication is that in the absence of some truly revolutionary change in the global social and economic power structure, collective bargaining is the best and only kind of workplace democracy that that workers can hope for. For all the reasons outlined above, we are unwilling to accept that this should be the case. We believe that a market economy that is just and sustainable is perfectly possible, but also that it would not closely resemble what we currently have. In this respect, Michael Aglietta draws a crucial distinction between the capitalism that we currently have and the (theoretical) market economy: “A market economy and capitalism are linked but not identical. The market paradigm is one of exchange among equals; it can be formalized as competitive equilibrium. Capitalism is a force of accumulation. It is not self-regulating and does not converge to any ideal model. Inequality is its essence” (Aglietta 2008, p.62). Elsewhere, we have also argued that there is no reason why the market economy need necessarily have socially negative effects so long as certain conditions are fulfilled (Cradden 2005). Perhaps the most important of these is that the basic goals of the business organization are such that the pursuit of profit a means rather than an end. Organizations might therefore aim to

- make a good quality product or delivering a decent service at a reasonable price;
- organize production or service delivery effectively, in a way that makes best use of the available technology and the talents of those involved;
- avoid causing environmental or other social problems;
- distribute the profits among the organization’s members in a way that fairly reflects their contribution to production.

These goals may seem banal, but they frame the basic aims of the organization in a way that makes it clear that its activities are primarily intended to maintain or improve the general level of social well-being rather than, for example, simply enriching a certain category of organization member (the owners of its capital).

The second condition for the socially positive market, closely related to the first, is a commitment to the principle that responses to market imperatives should not be blind to the characteristics of the market in question. As Aglietta suggests, markets should be about exchange among equals. We have to assume that genuinely free exchange would not lead to exploitation and increasing inequality in the distribution of material goods. The test of a successful market, then, is that it makes the distribution of material goods fairer, not less fair. The prices and other competitive pressures arising from product or labour markets characterized by high levels of income and wealth inequality cannot be accepted at face value and decisions about action have to be 'corrected' by the direct application of ethical and political values. In the terms we used above, participants in market action have to be aware of the possibility of changing the functional characteristics of the market itself; of changing the regulation that governs market relationships – in most cases, simply by changing the focus from price and profit to the substantive justice of the exchange relationship. This is, of course, the intuition underpinning the 'fair trade' movement.

The third condition for the socially positive market is workplace democracy itself. We want to argue that the very practice of workplace democracy is what permits the kind of ethical correction of decisions about action we have just proposed. We also want to argue that the precise institutional form of that democracy is less important that the basic principle of dismantling hierarchical management structures.

Against hierarchy

We start from the principle that management is about the active coordination of action. The point of any kind of organization is to do things that individuals cannot manage on their own. Organizations *organize* groups of people so that by working together they can achieve something that would be more difficult or impossible if they were working alone. So the actions of people working in organizations are 'coordinated' – the job that each person does is one element in a bigger picture. Now, the process of action coordination does not have to be complicated or difficult, nor for that matter does it have to be hierarchical. It can be as simple and obvious as saying 'why don't you look for firewood while I fetch some water?'. It does not have to involve dividing the members of the organization into leaders and followers, and it does not mean that one individual has to have a better grasp on what the organization is trying to do than anyone else.

Once organizations get past a certain size, however, or once what they are trying to do gets past a certain level of complexity, it starts to be necessary to think more systematically about coordination – about what exactly needs to be done, about how best to break the job down into person-sized parts, about which part should be done by which member of the organization, and about how to put the parts back together again in order to produce coherent, effective collective action.

According to philosopher and sociologist Jürgen Habermas (1984; 1987), every human being has an innate capacity for social action coordination. In essence, this is the capacity to persuade people that you are right about something – plans of action, the allocation of tasks, the nature of the environment for action – using only the force of the better argument; without having the power to force agreement by threatening to sack you, for example. Habermas argues that this kind of unforced communication is how we come to know everything that we know – not only what is true about the physical world, but also what is the right way for people to interact and behave towards each other. He proposes that this type of communication is so fundamental that it is built into the very structure of language.

In essence Habermas's conception of rational argument comes down to two things. First of all, we recognise that the things people say are true or right or reasonable because they fit the evidence. They are built on facts we know to be true about the physical world and reflect moral codes, ethical standards, conventions and customs that we know are accepted within our social world. Second, what we understand when we hear some statement depends not just on the words themselves but on what we believe about the attitude of the person we are dealing with. If we do not immediately recognise that what is being said is true or right or reasonable, then our first intuition is to question the assumptions that underpin what the speaker is saying. What happens next depends crucially on whether the speaker is willing to enter into an open-ended discussion about these assumptions, having accepted the possibility that they might be wrong about them. At issue here is the sincerity of their attempt to communicate – whether they are aiming to say what they say and nothing more, or whether they are trying to have some other effect on us. If they are willing to discuss the problems raised by others with a view to finding a consensus, then they are indicating that they want to coordinate action on the basis of true facts and valid norms and values and not by any other means. They are renouncing the use of power to coordinate action. If on the other hand a speaker is *not* willing to discuss the basis of their argument, then this casts doubt on their motives, putting a questionmark over the inherent validity of what they are proposing. It raises the possibility that they are attempting to coordinate social action on the basis of lies and manipulation or via the application of power. This in turn implies that they are pursuing goals that they know or suspect that the other participants in action ultimately would not freely accept.

So, Habermas's argument is that we intuitively expect there to be a direct, rational relationship between what we know about the physical and social world and the coordinated action we participate in. This means that we intuitively want to question any proposed action where this connection is not obvious. For Habermas, there is a very strictly logical connection between refusing to respond to this kind of questioning and the attitudes and motives of the person who is unwilling to talk.

This has serious implications for conventional approaches to management and organization. Formal hierarchies are precisely designed to allow debate to be closed down – if it is even allowed to begin. Hierarchical social structures like conventional organizations officially, compulsorily and permanently accord greater weight to the beliefs and opinions of certain individuals and groups, giving them the power to impose their assessment of the situation, regardless of what the majority within the group think and believe.[4]

4 The word 'permanently' is important here because it distinguishes management from other types of authority, notably the authority of the state and the forces of order. Citizens are obliged to obey members of the police force, for example, and particularly in situations of urgency the police are under no immediate obligation to

If we are right to say that hierarchy is about closing down debate, then there are two important consequences. The first is that within hierarchically-organized social structures, criteria other than what can be shown to be true and right can count in the search for what is true and right. Hierarchy allows action which is rational from everyone's perspective to be set aside. Instead, action can be designed to suit the purposes of smaller groups, or can be based on a worldview which is not widely shared. The 17th century Roman Catholic Church did not try to silence Galileo because it honestly disagreed with his views on whether the sun moved around the earth or vice versa. Quite aside from the fact that honest disagreement never involves trying to silence anyone, whether Galileo was right was not the point. The point was that his views were a threat to the power of the Church and it had the authority to stop him stating them. It did not have to bother to take his claims seriously. At the other end of the spectrum, Trofim Lysenko's theories about agriculture were supported by the Soviet government not because they were effective – they were mostly fraudulent nonsense – but because they were politically convenient. Stalin had awarded his government the right to pronounce on what scientific research was valid and what was not, regardless of what that research was actually saying.

The Lysenko and Galileo cases involve the suppression of demonstrably true facts about the physical world. Probably for this reason they seem extreme, but formal hierarchies perform exactly the same kind of suppression on political, ethical, moral and social facts and arguments. Because they are not denying physically demonstrable facts, it is harder to see that they are inflicting exactly the same kind of violence on the truth. The thing is that this is not just something that happens in some organizations at certain times. Rather, as we have seen, it is what organizational hierarchies are for.

The second consequence of this idea that hierarchy is about closing down debate is that subordinates are more likely to question the motives and/or the competence of their superiors. The use of the formal right to command actually makes it more difficult for those responsible for action coordination to succeed in their task, particularly when the situation is new or difficult. In most organizations, openly questioning management plans and instructions is just not done. Employees simply have to accept that whatever management says is what will happen. But, as we argued above, the refusal to engage in debate about coordinated action sends a strong social signal. Employees can interpret the refusal to debate as evidence that managerial plans and strategies are not designed as a contribution to the pursuit of the common good but as a means to promote some narrower or even hidden

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explain or justify their commands. However, the obligation to comply is based on the assumption that the police could in principle justify their requests, and that if there is any question about the legitimacy of their actions they will do exactly that at some point after the urgency has passed. Managers, on the other hand, are not accountable to employees even in principle.

agenda. It makes perfect sense to believe that managers are avoiding discussion because it involves the risk that this agenda will be exposed.

Even where action plans could in principle be fully supported by rational argument, subordinates may engage in resistance to management simply because it is not 100% clear that those plans are rational and because they do not have the right to question them. This is not to say that employees follow directions from management only because if they do not they risk being disciplined or dismissed. It would clearly be untrue to argue either that management plans, strategies and instructions never have any foundation in a wider rationality that employees can recognise, or that managers are never taken at their word by their employees. At the same time, it would be difficult to argue that employees' opinions and attitudes are not coloured by the fact that if they refuse to do what they are told, or if they question management decisions in other ways, then they may ultimately be sacked. We would suggest that in the face of the possibilities for economic and psychological coercion that managers have at their disposal, workers have a tendency to make the best of a bad situation by applying a different set of standards at work to those they would apply in ordinary life. So rather than complying with plans and instructions that they positively accept as right and reasonable, they may (for example) fall in line when they recognise in management's commands an established way of doing things that in the past has not had obviously bad consequences. The threshold at which they will actively resist management unless certain questions are adequately addressed is pushed back beyond where it would be outside of work. Unfortunately, this is usually enough to ensure that bad decisions go unquestioned and that partial interests dominate the development of organizational plans and strategies.

Pulling this all together, what we want to suggest is that coordinating action via formal hierarchy – which we could also simply call the principle of managerial prerogative – is not only politically and ethically unjustifiable in itself, but exposes organizations to a higher risk that wrong decisions will be taken, and to a higher risk that even when decisions are rationally defensible – when they are based on true facts and morally and ethically sound values and principles – the members of the organization who are excluded from the decision-making process will not willingly accept them.

Democratizing decision-making procedures within organizations corrects both the normative/procedural problem of the denial of worker self-determination and the pragmatic/substantive problems of ineffective decision-making and worker resistance to coordination. This is because it prevents rational discussion about action being closed down and opens up that discussion to any reason for action that any member of the organization wants to put on the table. Hence it is a way of pushing the threshold at which proposals are questioned back to where it would be outside the economic context. It ensures that strategies, plans and actions and the effect these have both within and beyond the organization meet the same moral and ethical standards that apply beyond the world of work and business. It is this widening of the normative scope of decision making that permits the 'correction' of the organizational response to imperatives arising from markets characterized by inequality.

What kind of workplace democracy?

Exactly what form this new organizational democracy could or should take is a big question, but certain principles are clear. At the root of it all is the notion that the coordinating function within organizations – the role currently played by managers – should not have the power to close down debate about what the organization should do and how it should do it. This in turn means that our new coordinators should ideally have no formal power whatsoever over the actions of other members of the organization. If this is to be the case in practice then there are two conditions that need to be fulfilled. First of all, the enforcement of worker discipline and decisions about career progression must be separate from the coordinating function, based on open and transparent procedures and (of course) compatible with the principles of natural justice. The second condition is that both levels of pay and the distribution of profits or surpluses between those who contribute capital and those who contribute labour must be determined on the basis of open and transparent procedures, and agreed by all members. Beyond these basic and universal principles, the way in which democratic organizations might function and develop seems to us to be entirely open. Any arrangements that meet with the approval of the members of organizations (via sound procedures) would obviously be acceptable.

Conclusions

The role of the labour movement is and has always been to ensure that political and ethical choices that reflect the values and interests of workers are integrated into business decision-making. However, the argument that that these values and interests are conceptually separate from and permanently in conflict with the values and interests that drive economic action has been subject to serious challenge. The social compromise model, in which the democratic legitimation of employer authority is derived from the collective contract agreed via bargaining between unionized workers and employers, has been replaced in the background consensus on industrial relations policy by the corporate theory of society. This theory grounds the legitimation of employer authority on the technical expertise of management applied in the context of objective and autonomous economic structures and a unitary conception of the public interest that does not identify separate workers, and employers' interests but assumes that there is a universal interest in the pursuit of economic competitiveness. The argument in this paper is that the labour movement needs to accept a unitary conception of the public interest – to accept that workers, unions, managers and shareholders can in principle form a single group with common interests – and hence that it should not advocate collective bargaining as its headline policy goal. However, the labour movement should at the same time roundly reject the corporate theory of society. It should accept neither that the market is beyond all conscious control, nor that the role of management is anything like the role of experts in the natural sciences like doctors or engineers. We have argued that economic action is always also political action in the sense that it involves judgements about what values and interests to pursue and how to pursue them. There is no technical component to these decisions that can be isolated from the normative aspects. For this reason, there is no reason to exclude any member of the organization from the making of any decision that has an effect on his or her interests or on the interests of the wider community. We have shown that democratic, non-hierarchical forms of coordination within organizations can have a positive effect both internally in terms of the capacity of organizations to take effective action, and externally in terms of the construction of a socially positive market economy.

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