Who should control the corporation?

Henry Mintzberg

What is the best way of assuring that giant corporations behave in socially responsible ways? Opinions and prescriptions range over a wide spectrum, from doctrinaire proponents of out-and-out nationalization to theorists who would trust entirely to the dynamics of a free-market economy to assure socially desirable outcomes. The job of sorting out the options, the author suggests, can be much simplified by ranging them along a "conceptual horseshoe." It then becomes easier to evaluate them on a situational basis – letting pragmatism, not ideology, govern the choice.

Who should control the corporation? And for what ends?

Historically, the corporation was controlled by its owners for the pursuit of economic goals. But as shareholding became dispersed, owner control weakened; and as the corporation grew, so did the social consequences of its economic actions. As the giant, widely held corporation came under the control of its managers, the concept of social responsibility – the voluntary consideration of public social goals alongside the private economic ones – arose to provide a basis of legitimacy for their decisions.

To some this was acceptable as a satisfactory arrangement. They said, in effect, "trust it" to the goodwill of the managers to achieve an appropriate balance between social and economic goals.

Others viewed this basis of control as fundamentally illegitimate. The corporation was too large, too influential, its actions too pervasive to be left uninfluenced by outsiders. At one extreme of the political spectrum, some believed that legitimacy could be achieved only by subjecting managerial authority to formal and direct external control. "Nationalize it," they said; put ultimate
control in the hands of the government so that it will pursue public social goals. No, said those at the other extreme, “restore it” to direct shareholder control, so that it will not waver from the pursuit of private economic goals.

Other people took less extreme positions. “Democratize it” became the rallying cry for some. They wanted to open up corporate governance to a variety of affected groups – if not the workers, then the customers, conservation interests, or minorities. “Regulate it” was also a popular position based on the implicit premise that only by sharing their control with government would the corporation’s managers attend to certain social goals. Then there were those who accepted direct management control so long as it was tempered by other, less formal types of influence. “Pressure it,” said a generation of social activists, to ensure that social goals are taken into consideration. Still others argued that, because the corporation is an economic instrument, you must “induce it” by providing economic incentives to encourage the resolution of social problems.

Finally, there were those who argued that this whole debate was unnecessary, that a kind of invisible hand ensures that the economic corporation acts in a socially responsible manner. “Ignore it” was their implicit conclusion.

The conceptual horseshoe

So far, this debate, the major debate revolving around the private sector, has been left largely to political scientists and economists who have addressed the issue in terms of political control and economic performance. But we should be equally concerned, it seems to me, about what is feasible in an organizational context and achievable by a system of management.

The various viewpoints on corporate control can be laid out along a political spectrum, from nationalization at one end to restoration of shareholder power at the other. From the managerial perspective, however, those two extremes are not so far apart. Both call for direct control of the corporation’s managers by specific outsiders: in one case by the government, to ensure the pursuit of social goals; in the other by the shareholders, to ensure the pursuit of economic ends. It is the moderate positions – notably, trusting the corporation to the social responsibility of its managers – that are furthest from these extremes. Seen in this way, the spectrum assumes the shape of a horseshoe.
Exhibit I shows our "conceptual horseshoe," with "nationalize it" and "restore it" at the two converging ends. "Trust it" is at the center, because it postulates a natural balance of social and economic goals. "Democratize it," "regulate it" and "pressure it" are shown on the left side of the horseshoe, because all seek to temper economic goals with social ones. "Induce it" and "ignore it," both of which favor the exclusive pursuit of economic goals, are shown on the right side.

Since each of these positions, with one exception, has a logical context, I believe they should be regarded as a portfolio from which society can draw to deal with the issue of who should control the corporation and how. Let us consider them in turn, circling the horseshoe from left to right.
“Nationalize it”

Whenever a major corporation runs into serious difficulty (i.e., faces bankruptcy with possible loss of many jobs), the option of massive government intervention, often including direct nationalization, inevitably comes up. This option has repeatedly been exercised: US travellers now ride on Amtrak; Tennessee residents have for years been getting their power from a government utility; indeed, the Post Office was once a private enterprise. Other nations have been much more ambitious in this regard.

From a managerial and organizational perspective, the question is not whether nationalization is legitimate, but whether it works in particular circumstances. The evidence suggests that social difficulties arise more from the size of an organization and its degree of bureaucratization than from its form of ownership.

Nationalization does not necessarily harm economic efficiency. To compare government-owned Air Canada, Canadian National (railway conglomerate) and Hydro Québec (electric power) with most of their privately-owned counterparts would be to make a reasonable case for nationalization. When they believe that nationalization has to work, state-owned enterprises may be able to attract the very best talent in the country and thereby work well. Of course, economic efficiency is no reason to favor nationalization, any more than is concern about social responsibility.

Nationalization does, however, seem to make sense in at least two circumstances. First, when a mission deemed necessary in a society – e.g., rail transport – will not be provided adequately by the private sector; second, when the activities of an organization must be so intricately tied to government policy that it is best managed as a direct arm of the state. The Canadian government created Petrocan to act as a “window” and a source of expertise on the sensitive oil industry. In short, nationalization should certainly not be embraced as a panacea, but neither should it be rejected as totally inapplicable.

“Democratize it”

A less extreme position calls for formal devices to broaden the governance of the corporation. Proponents either accept the legal fiction of shareholder control and argue that the corporation’s power base is too narrow, or question the legitimacy of de facto managerial control. Why, they ask, should stockholders or self-selected managers have any greater right to control the profound
Exhibit II  **Four basic forms of corporate democracy**

<table>
<thead>
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<th>Groups involved</th>
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<td>Internal employees</td>
<td>External interest groups</td>
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<td>Board of directors</td>
<td>Worker representative democracy (European style, e.g., &quot;codetermination&quot; or worker ownership)</td>
<td>Pluralistic representative democracy (American style, e.g., &quot;public interest&quot; directors)</td>
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<tr>
<td>Focus of attention</td>
<td>Worker participatory democracy (e.g., works councils)</td>
<td>Pluralistic participatory democracy (e.g., outsiders on new product committees)</td>
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decisions of these major institutions than workers, customers, or the neighbors downstream?

These critics do not ask management to share its power voluntarily; rather, they insist that this power must be constitutionally reallocated. That makes their position a fundamental and important one, especially in the United States, with its strong tradition of pluralistic control of its institutions.

The debate over democratizing the corporation has been confused by the vagueness of many of the proposals. In organizational terms, there are two basic means of democratization and two basic constituencies that can be involved. As Exhibit II shows, they suggest four possible forms of corporate democracy. One means is through the election of representatives to the board of directors, which we call representative democracy; the other is through formal but direct involvement in internal decision making processes, or participatory democracy. Both can focus either on the workers – all employees, or just those in operating tasks – or on a host of outside interest groups, giving rise to a pluralistic form of democracy. These are, in theory, the basic forms of corporate democracy. With one exception, they have hardly been approached in practice. But they suggest where the democratization debate may be headed.
Worker representative democracy. The European debate has focused on worker representative democracy. This has in some sense been achieved in Yugoslavia, where the workers of all but the smallest firms elect the members of the managing board. In Germany, under the so-called *Mitbestimmung* ("codetermination") law, workers and shareholders each elect half the directors.

The evidence on this form of corporate democracy has been consistent: worker representation on the board seems to make relatively little difference one way or the other. The worker representatives concern themselves with wage and welfare issues, leaving most other questions to management. Worker-controlled firms appear to be no more socially responsible than private ones. On the other hand, worker representative democracy may have certain benefits. Codetermination certainly does not seem to have done the German economy much harm. By providing an aura of legitimacy to the German corporation and involving workers in its governance, it may even have enhanced the spirit of enterprise in Germany and fostered greater understanding and cooperation between the managers and the union members who fill most of the worker seats.

Pluralistic representative democracy. The embryonic debate over representative democracy in the United States has shown signs of moving in a different direction. Consistent with the American tradition of democratic pluralism, there has been increasing pressure to elect outside directors who represent a wide variety of special interest groups — consumers, minorities, environmentalists, and so on. Critics have pointed out the problems of defining constituencies and finding the means to hold elections. "One person, one vote" may be easily applied to electing representatives of the workers, but no such simple rule can be found in the case of the consumer or environmental representatives, let alone those of the "public interest." Yet it is amazing how quickly things become workable in the United States when Americans decide to put their collective mind to it. According to a Conference Board report, the selection by the Chief Justice of the Supreme Court of New Jersey of 6 of the 24 members of the board of Prudential Insurance as public directors has been found by the company to be "quite workable."

Worker participatory democracy. Despite its problems, representative democracy is quite clearcut compared with participatory democracy. What the French call *autogestion* (as opposed to *cogestion*, or codetermination) seems to describe a kind of bottom-
up, grassroots democracy in which the workers participate directly in decision making and elect their own managers, who become administrators rather than bosses. Worker participatory – and representative – democracy has been attempted primarily in organizations employing large numbers of workers who do highly routine, rather unskilled jobs of the sort that are typical of most mass production and service businesses, where the overriding requirement is for tight, centralized coordination.

Participatory democracy is approached in other kinds of organizations – autonomous professional institutions such as universities and hospitals, which have very different needs for central coordination. But the proponents of worker participatory democracy in organizations are not lobbying for changes in hospitals or universities. It is the giant mass producers they are after, and unless the operating work in these corporations becomes largely skilled and professional in nature, nothing approaching participatory democracy can be expected.

Pluralistic participatory democracy. In principle, the pluralistic form of participatory democracy enables a variety of external groups to somehow control the corporation’s decision-making processes directly. In practice, to fully open up the internal decision-making processes of the corporation to outsiders would mean chaos. Yet in certain circumstances, limited forms of outside participation might be feasible and even desirable: for example, corporations might sometimes profit from having consumer representatives on a team charged with designing new products, or having local townspeople on a task force designing a new plant, in order to forestall potential conflict rather than have it erupt in the form of a pressure campaign during implementation.

Corporate democracy – whether representative or participatory in form – may be an elusive and difficult concept, but it cannot be dismissed. In a society of organizations, democracy will have less and less meaning to most citizens if it cannot be extended beyond political and judicial processes to those institutions that impinge upon them in their daily lives – as workers, as consumers, as neighbors. This is why we shall be hearing a great deal more about corporate democratization.

“Regulate it”

To the proponents of regulation, the corporation can be made responsive to social needs by subjecting its actions to controls by a
higher authority – typically a regulatory agency or legislation backed by the courts. Under regulation, constraints are imposed externally on the corporation while its internal governance is left to its managers.

At best, regulation sets minimum, usually crude standards of acceptable behavior; it cannot make any firm socially responsible, but only restrain some from gross irresponsibility. Because it is inflexible, regulation tends to be applied slowly and conservatively, usually lagging behind public sentiment. Because of difficulties in enforcement, it often does not work. The problems of the regulatory agencies are legendary – limited resources and information compared with the industries they are supposed to regulate, the cooptation of regulators by industry, and so on. When applied indiscriminately, regulation either fails dramatically or else succeeds and creates havoc.

Yet there are obvious applications for regulation. A prime example is controlling tangible “externalities” – costs incurred by corporations that are passed on to the public at large. When, for example, costly pollution or worker health problems can be attributed directly to a corporation, then there seems to be every reason to force it (and its customers) to meet these costs directly or stop the actions that generate them. Likewise, regulation can be used to redress the balance where competition has encouraged the unscrupulous to pull all firms down to a base level of behavior, forcing even well-intentioned managers to ignore the social consequences of their actions. Indeed, in such cases, the socially responsible behavior is to encourage sensible regulation, helping businessmen to help themselves. One reason why so much legislation has been excessive and ineffective may be that it has been enacted with the support of the general public but over the obstinate resistance of businessmen.

Were the business community to take a more enlightened view of regulation, it could perhaps be applied more appropriately, eliminating the need for periodic housecleanings to eliminate the excesses. Regulation is a clumsy instrument but not a useless one.

“Pressure it”
Pressure is designed to do what regulation generally fails to do: provoke corporations to act beyond some base level of behavior, usually in an area that regulation misses entirely. Here, activists
bring ad hoc campaigns of pressure to bear on one or a group of corporations to keep them responsive to the activists’ interpretation of social needs. Their patron saint, Ralph Nader, has a theory of power: “If it’s going to be responsible, it has to be insecure; it has to have something to lose.”1 “Pressure it” is a distinctively American approach, perhaps because it implicitly accepts management’s right to make the final decisions.

While less radical than the other positions so far discussed, pressure has nevertheless proved far more effective in eliciting behavior sensitive to social needs. Campaign GM is a good case in point. Not only did it alter the behavior of General Motors, but it stimulated the thinking of the managers in a great many other organizations.

The lesson has hardly been lost on other activist groups, which have pressed for everything from the dismemberment of diversified corporations to the development of day care centers. Of special note is the class action suit, which has opened up a whole new realm of corporate social issues.

As a means to change corporate behavior, pressure is informal, flexible and focused and has thus been highly successful. Yet it is also irregular and ad hoc, with different pressure campaigns sometimes making contradictory demands on management. Compared to the position to its right on the horseshoe, this approach, like the positions to its left, relies on confrontation rather than cooperation.

“Trust it”

To a large and vocal contingent, parading under the banner of “social responsibility,” the corporation has no need to act irresponsibly, and therefore there is no reason for it to be controlled in any formal way. This approach alone postulates a natural balance – attained in the heads or hearts of responsible businessmen – between social and economic goals. Power, consequently, can be left in the hands of the managers.

Attacks on this position come from both right and left. They boil down to three questions: whether corporate managers should be trusted when they claim to pursue social goals; whether they are capable of pursuing such goals; and, finally, whether they have any right to do so.

1 References appear on page 64.
The simplest criticism is that social responsibility is all rhetoric, no action, that "the most common corporate response to criticism of a deficient sense of social responsibility [has been] an augmented program of public relations."^2 Others argue that businessmen are not fitted to pursue social goals: that their knowledge of social issues is too restricted, or that because of their orientation to efficiency they lack the skill and sensitivity required to handle complex social problems. A similar argument is that the structure and control systems used in large corporations render them ineffective at pursuing social goals.

The most far-reaching criticism is that businessmen have no right to pursue social goals. "What business have managers — self-selected or at best appointed by shareholders — to impose their interpretation of the public good on society?" demand critics on the left. "Let the elected politicians, directly responsible to the population, look after the social goals." Milton Friedman writes that social responsibility amounts to spending other people's money — if not that of shareholders, then of customers or employees. To him, "there is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game."^3 Let businessmen, in other words, stick to their own business, which is business itself.

The modern corporation has been described as a rational, amoral institution, managed by "hired guns" who pursue efficiently any goals asked of them. The problem is that efficiency really means measurable efficiency: the guns load only with goals that can be quantified — and social goals, unlike economic ones, don't lend themselves to quantification. As a result, the performance control systems on which modern corporations so heavily depend tend to drive out social goals in favor of economic ones.

Even when the chief executive is personally committed, the control systems he must rely upon to manage far-flung operations may prevent him from doing anything about social goals. Thus, while he sings the praises of social responsibility, his employees are forced to march to the tune of economic performance. How, then, is anyone to "trust it"?

The fact is that we have to trust it, for two reasons. First, the strategic decisions of large organizations inevitably involve social as well as economic consequences that are inextricably intertwined. Every important decision of the large corporation — to
introduce a new product line, to close an old plant, whatever – generates all kinds of social consequences. There is no such thing as a purely economic decision in big business.

The second reason for adopting the “trust it” approach is that in corporate decision making there is always some degree of discretion to thwart social needs or to attend to them. Things could be a lot better in today’s corporation, but they could also be an awful lot worse. It is primarily our ethics that keep us where we are; without responsible and ethical people in important places, our society would not be worth very much.

This is not to suggest that we must “trust it” completely or unconditionally. Where business is inherently involved, where its decisions have social consequences, there social responsibility has a role to play.

“Ignore it”

This approach differs from the other positions on the horseshoe in that it calls for no change in corporate behavior. It assumes that social needs are met in the course of pursuing economic goals. It asserts, in effect, that economics, not ethics, elicits the desired corporate behavior – that “it pays to be good,” and economic forces will ensure that social needs fall conveniently into place.

Here we have moved one notch to the right on the horseshoe, into the realm dominated by economic goals. This position is sometimes referred to as “enlightened self-interest.” Many a true believer in social responsibility has used the argument that “it pays to be good” as a means of countering those who maintain that corporations have no business pursuing social goals. Sometimes it is argued that the whole business community will benefit from socially responsible behavior; sometimes, that the individual corporation will benefit directly from its own socially responsible actions. Some argue, for example, that companies that are good neighbors by polluting less are more profitable. Others claim that socially responsible behavior pays off in a better image for the firm, a more positive relationship with customers, and ultimately a healthier and more stable society in which to do business.

Then there is the argument that goes: “If we’re not good, they will move in” – “they” being Ralph Nader, the government, or whoever. In other words, “Be good or else.” The trouble with this argument is that, by reducing social responsibility to a mere
political tool for sustaining managerial control of the corporation in the face of outside threats, it tends to encourage pronouncements instead of concrete actions (unless, of course, "they" actually deliver with pressure campaigns).

The "ignore it" position seems to encourage average behavior at best; and where the average does not seem to be good enough, it encourages the status quo. In fact, ironically, this approach makes a strong case for the "pressure it" approach, since the whole argument collapses in the absence of pressure campaigns.

"Induce it"

Continuing on the right side of the horseshoe, our next position drops all concern with social responsibility. It proposes, "Pay it to be good" – which from the corporation’s point of view becomes "Be good only where it pays." In this view, the corporation does not actively pursue social goals at all, whether as means to economic ends or as ends in themselves. Rather, it undertakes socially desirable programs only when induced economically to do so – usually through government incentives. If society wishes to clean up urban blight, then let its government provide subsidies for corporations that renovate buildings; if pollution is the problem, then let corporations be rewarded for reducing it.

Inducement faces regulation across the horseshoe for good reason. While one penalizes the corporation for what it does do, the other rewards it for doing what it might not otherwise do. Hence these two positions can be direct substitutes: pollution can be alleviated by introducing penalties for the damage done or by offering incentives for the improvements rendered.

Logic would, however, dictate a specific role for each of these positions. Where a corporation is doing society a specific, attributable harm – as in the case of pollution – then paying it to stop hardly seems to make a lot of sense. If society does not wish to outlaw the harmful behavior altogether, surely it must charge those responsible for it – the corporation and, ultimately, its customers. Offering financial incentives to stop causing harm would be to invite a kind of blackmail – for example, encouraging corporations to pollute so as to get paid to stop. And every citizen would be charged for the harm done by only a few.

On the other hand, where social problems exist that cannot be attributed to specific corporations, yet require the skills of certain
corporations for solution, then financial incentives clearly make sense (as long, of course, as solutions can be clearly defined and tied to tangible economic rewards). Here, and not in the trust approach, is where the “only business can do it” argument belongs. When only business can do it (and business has not in fact done it), then business should be encouraged to do it.

Even activists on the left have argued that if society wants something from business, then it should contract for it in a clear economic manner. That way economic values have the least chance of distorting social needs. In this respect, “induce it” is the least ideological of the eight positions around the horseshoe. It makes no case for social goals, nor does it fight the battles of free enterprise. It merely postulates the corporation as an economic instrument, whose power is unleashed at society’s request.

“Restore it”

This last position on the horseshoe seeks a fundamental change in the governance and the goals of the corporation. Its proponents, like those of nationalization, believe that managerial control is illegitimate and must be replaced by a more valid form of external control. The corporation, they say, should be restored to its “rightful” owners, the shareholders. The only way to ensure the relentless pursuit of economic goals – and that means the maximization of profit, free of social responsibility – is to put control directly into the hands of those to whom profit means the most. Milton Friedman has written:

In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.¹

This position, in my view, rests on a series of fallacious assumptions. First is the technical assumption of shareholder control. Every trend in ownership during this century seems to refute the assumption that small shareholders are either willing or able to control the large, widely held corporation. The one place where free markets clearly still exist is in stock ownership, and that has served to detach ownership from control. When power is widely dispersed – among stockholders no less than workers or customers – those who share it tend to remain passive. It pays no one of
them to invest the effort to exercise their power. Hence, even if serious shareholders did control the boards of widely held corporations (and one survey of all Fortune "500" directors in 1977 found that fewer than 2 percent of them represented significant shareholder interests^5), the question remains as to whether they would actually try to control the management.

The economic assumptions of free markets have been discussed at length in the literature. Whether there exists vibrant competition, unlimited entry, open information, consumer sovereignty and labor mobility is debatable. Less debatable is the conclusion that the larger the corporation, the greater is its ability to interfere with these processes – and the issues we are discussing center on the giant corporation.

The founders of conventional economic theory never dreamed of the massive amounts now spent for advertising campaigns; of the waves of conglomeration that have combined all kinds of diverse business into single corporate entities; of chemical complexes that cost more than a billion dollars; and of the intimate relationships that now exist between giant corporations and government as customer and partner, not to mention subsidizer. The concept of arm’s-length relationship in such conditions is, at best, nostalgic. What happens to consumer sovereignty when Ford knows more about its gas tanks than do its customers? And what does labor mobility mean in the presence of an inflexible pension plan, or commitment to a special skill, or a one-factory town? It is an ironic twist of conventional economic theory that the worker is the one who typically stays put, thus rendering false the assumption of labor mobility, while the shareholder is the mobile one, thus spoiling the case for owner control.

The political assumptions are more ideological in nature, although usually implicit. They hold that the corporation is essentially amoral – society’s instrument for producing goods and services – and, more broadly, that a society is “free” and “democratic” so long as its governmental leaders are elected by universal suffrage and do not interfere with the legal activities of businessmen.

But many people seem to subscribe to one or more alternative assumptions. One is that the large corporation is a social and political institution as much as an economic instrument. Economic activities, as noted previously, produce all kinds of social consequences. Jobs get created and rivers get polluted, cities get
built and workers get injured. These social consequences cannot be factored out of corporate strategic decisions and assigned to government.

Another alternative assumption is that society cannot achieve the necessary balance between social and economic needs so long as the private sector attends only to economic goals. Given the pervasiveness of business in society, the acceptance of Friedman’s prescriptions would drive us toward a one-dimensional society—a society that is too utilitarian and too materialistic. Economic morality, as noted earlier, can amount to social immorality.

Finally, the question is asked: What justifies owner control of the corporation in a democratic society, any more than worker control, or consumer control, or pluralistic control? Ours is not Adam Smith’s society of small proprietors and shopkeepers. His butcher, brewer and baker have become Iowa Beef Packers, Anheuser-Busch and ITT Continental Baking. What was once a case for individual democracy now becomes a case for oligarchy. In a society of giant corporations, managed economies and dispersed shareholders—a society in which the collective power of corporations is coming under increasing scrutiny and in which the distribution between economic and social goals is being readdressed—“restore it” flies in the face of powerful economic and political forces.

If the shoe fits

I believe that we need to treat the conceptual horseshoe as a portfolio of positions from which we can draw, depending on circumstances. Exclusive reliance on any position will lead to a narrow and dogmatic society, with an excessive concentration of power.

We have learned about the dangers of unrestrained government ownership. No less menacing is the unrestrained pursuit of the economic interests of the shareholders, or of the oligarchy of ostensibly “socially responsible” managers. In contrast, the use of a variety of positions can encourage the pluralism I believe most people feel is necessary to sustain democracy. If the shoe fits, then let the corporation wear it.

Clearly, the eight positions represent fundamentally different values and, in some cases, ideologies as well. But anyone who makes an honest assessment of the realities of power in and around today’s large corporations must conclude that a variety of
positions have to be relied upon. Even the most devoted adherent of conventional economic theory cannot, for example, dismiss regulation totally, any more than the most flaming radical can deny the legitimacy of economic goals.

What, then, are the relevant roles of each of the eight positions? In summary, these are my own prescriptions:

First, "trust it," or at least "socialize it." Despite my suspicions about much of the rhetoric that passes for social responsibility, I remain firmly convinced that without honest and responsible people in important places, we are in deep trouble. We need to "trust it" because, no matter how much we adhere to the other positions, managers will always retain a great deal of power, and that power necessarily has social as well as economic consequences, while some of those on the left fail to recognize the difficulties of influencing these consequences in large, hierarchical organizations. Sitting between these two sets of positions, managers can use their discretion to satisfy or subvert the wishes of the public. Ultimately, what managers do is determined by their sense of responsibility as individual members of society.

There is, however, an appropriate and limited place for social responsibility—essentially to get the corporation's own house in order and to encourage it to act responsibly in its own sphere of operations. Beyond that, social responsibility needs to be tempered by other positions around our horseshoe.

Then "pressure it," ceaselessly. As we have seen, too many forces interfere with social responsibility. The best antidote to these forces is the ad hoc pressure campaign, designed to pinpoint unethical behavior and raise social consciousness about issues. The existence of the pressure approach is what most clearly distinguishes the western from the eastern "democracies." Give me one Ralph Nader to all those banks of government accountants!

In fact, the pressure approach underlies the success of most of the others. As we have seen, the "ignore it" position collapses without "pressure it." Pressure campaigns have brought about necessary new regulations and have highlighted the case for corporate democracy.

After that, try to "democratize it." This approach, a somewhat distant third in my portfolio, I view as radical only in terms of the
current US debate, not in terms of fundamental American values. Democracy matters most where it affects us directly – in the water we drink, the jobs we perform, the products we consume. How can we call our society democratic when many of its most powerful institutions are closed to governance from the outside and run as hierarchies of authority from within? Somehow, ways must be found to open the corporation up to the formal influence of the constituencies most affected by it – employees, customers, neighbors, and so on – without weakening it as an economic institution.

Then, only where specifically appropriate, “regulate it” and “induce it.” Facing each other on the horseshoe are two positions that have useful if limited roles to play. Regulation is neither a panacea nor a menace. It belongs where the corporation can abuse the power it has and can be penalized for that abuse – notably where externalities can be identified with specific corporations. Financial inducements belong, not where a corporation has created a problem, but where it has the capability to solve a problem created by someone else.

Occasionally, selectively, “nationalize it” and “restore it.” The extreme positions should be reserved for extreme problems. If “pressure it” is a scalpel and “regulate it” a cleaver, then nationalization and restoration are guillotines. Both are implicitly proposed as alternatives to democratization. One offers public control, the other “shareholder democracy.” The trouble is that control by everyone often turns out to control by no one, while control by the owners would remove the corporation even further from the influence of those most influenced by it.

Yet, as noted earlier, nationalization sometimes makes sense – when private enterprise cannot provide a necessary mission, at least in a sufficient or appropriate way, and when the activities of a corporation must be intricately tied in to government policy.

As for “restore it,” I believe Milton Friedman’s proposals would aggravate the problems of political control and social responsibility, further tilting what I see as the current imbalance between social and economic goals. Other forms of restoration, however, may be worth considering in certain circumstances – divestment, where diversification has interfered with capital markets, competition and economic efficiency; dis-integration vertically, where size represents a power game rather than a means of providing better and more efficient service to the public.
Finally, above all, don’t “ignore it.” I leave one position out of my portfolio altogether, because it contradicts the others. The one thing we must not do is ignore the large, widely-held corporation. It is too influential a force in our lives. Our challenge is to find ways to distribute the power in and around our large organizations so that they will remain responsive, vital and effective.

REFERENCES


4 ibid., p. 33.


Henry Mintzberg, Bronfman Professor of Management at McGill University, Montreal, Canada, won a McKinsey Foundation Award for the best article published in the Harvard Business Review during 1975. This article is condensed by special permission from the Fall 1984 issue of the California Management Review, Vol. XXVII, No. 1. Copyright © 1984 by The Regents of the University of California.