

Corporate Culture and Exploitation

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Very preliminary, comments welcome!

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Abstract

It has been argued that the market fosters selfishness and thereby undermines the moral basis of society. This thesis has been developed with an emphasis on market exchange. Everyday life is, however, predominantly shaped by interactions in the workplace rather than by shopping behaviour. This essay places emphasis on firm organisation, rather than market interaction, in moulding cultural traits.

The argument starts with the observation that workers may perceive the employment relationship in two different ways, with different behavioural consequences. The first is the conventional *incentive* view. The other is the *social exchange* view. Implementing the social exchange perspective may be profitable for firms which organize complex tasks. It requires an appropriate corporate culture, governed by reciprocity, fairness and commitment.

Such a culture may be viewed as a refined form of exploitation, however, as it involves creating an atmosphere of mutuality for profit. I shall argue against this thesis that the same attribution mechanisms which render corporate culture an effective management instrument shape the self-perception of management and engender true, rather than faked, social exchange. The market shapes firm organisations which foster mutualism rather than selfishness.

.. the moral basis of capitalism will
be seen as being constantly depleted
and replenished at the same time.

ALBERT HIRSCHMAN (1982:1483)

1 Introduction

The competitive market process allocates resources and shapes institutions. At the same time, and perhaps more importantly, it moulds cultural traits and attitudes prevailing in society. The theory of social evolution proposes that attitudes which entail successful behaviours will be more readily adopted and maintained than less successful variants, and will therefore spread and attain dominance over time. For example, a code of honour may be thought to emerge under Feudalism, but will be eroded in a market economy.¹

Previous writers have suggested that the expansion of the market restrains the passions and encourages rational goal-oriented behaviour; it weakens social bonds and strengthens self-reliance.² Some see this process as a process of civilisation, where atavistic tribal and feudal mentalities are replaced by more rational and individualistic attitudes; others portray it as self-destructive because many socially desirable traits which enhance social interaction and render the market system workable – like trust, reciprocity, and social responsiveness – will be eroded in the course of time, and the moral and intellectual foundations of the market process will be destroyed by unhampered competition and increased affluence.³

These arguments have been developed with an emphasis on price competition in markets as the dominant mode of social interaction.⁴ However, most interaction – even in modern market economies – takes place within firms and families, that is, within institutions and organizations that do not rely on the price mechanism for purposes of

¹ HIRSCHMAN (1977)

² Surveys are provided by HIRSCHMAN (1982) and BOWLES (1998).

³ KARL POLANYI (1944), SCHUMPETER (1950)

⁴ In his comprehensive account, BOWLES (1998, 78) commences with observing that production may be organized in various ways, based, e.g., on fiat, authority, age, gender, kinship, gift, theft, bargaining or markets. Each mode of organization will induce a characteristic pattern of interaction on the people who make up a society. However, his subsequent analysis addresses almost exclusively the impact of markets on cultural traits, though he emphasizes, the importance of business morality for incomplete contracting. That issue may be seen as the main concern of the present paper.

internal co-ordination. People spend most of their time in such organizations, and a lesser time doing shopping.

In the following I will concentrate on the impact of firm organization on the evolution of cultural traits. Firm organization is, of course, an integral part of the market process. Hence the process of enculturation envisaged here concerns the indirect, rather than direct, effects of the market process on attitude formation, as it works through firm organization. These indirect effects can be expected to be of greater significance than the direct effects, because social interaction within firms seems to be of greater significance in modern economies. As will be shown, the indirect effects on attitudes and behavior are less destructive and morally more appealing than the direct effects of market competition.

The chain of causality envisaged here is as follows: Market competition induces firms to adopt efficient forms of internal organization. This internal organization shapes attitudes and behavioral inclinations of the employees. Market success determines which organizational structure is chosen. Organizational forms which generate productivity-enhancing attitudes will outcompete others, and market forces will ultimately encourage corresponding traits. If co-operation is of great productive value, for instance, the market will engender, via its impact on firm organization, co-operative attitudes. Under such circumstances it would be wrong to insist that the market encourages selfishness. Such a statement would only apply to the relatively unimportant direct effects of market interaction and would neglect the all-important indirect effects which work in the opposite direction.

In a more familiar language, the argument can be rephrased in terms of the workings of incentives. It has been emphasized recently that the impact of economic incentives is not only a matter of the incentives themselves, but also of the worker's responsiveness to incentives.⁵ The position taken here – and shared by many industrial psychologists and compensation theorists – is that the implementation of any compensation policy provides incentives and shapes *at the same time* the workers' responsiveness to these incentives along with their overall work attitudes. Applying economic incentives without accounting for the motivational effect may entail ruinous consequences.

⁵ BOWLES, GINTIS & OSBORNE (2001).

The traditional principal-agent framework neglects the motivational aspects of incentives i.e., their impact on motivation and work attitudes. As a consequence, many empirical features of actual compensation systems must remain enigmatic. Modern compensation theory with its emphasis on “corporate culture” and “consistency” of the firms’ policies places emphasis on the effect of organization on work attitudes, and it is this line of research which is taken up here.⁶

2 Corporate Culture and Attribution

Recent discussion in organization theory has emphasized the importance of organizational citizenship behavior.⁷ Organizational citizenship behavior refers to activities which foster the firm’s goals but are not directly job related and not rewarded. Typical instances are: helping other workers with their tasks, voice concerns, defend the firm’s policies, or making favorable statements in public. It has been urged that perceived fairness encourages organizational citizenship behavior, while unfairness undermines it.⁸ In a more general way, the literature on “corporate culture” emphasizes the influence of “atmosphere” and attitudinal inseparability on performance.⁹

“Atmosphere” and “corporate culture” are holistic concepts. They refer to way in which an entire organization is perceived. The effect of these holistic influences is well illustrated by a recent study on performance pay.¹⁰ According to standard theory, an increase in performance pay should lead to an increase in the rewarded activity, and to a corresponding decrease in other activities. The earlier studies of organizational citizenship behavior have conjectured that performance pay would reduce organizational citizenship behavior and have been skeptical about economic incentives for this reason.. The study by DECKOP, MANGEL and CIRCA (1999) finds that the effect of performance pay on corporate citizenship behavior may actually turn out to be positive, rather than negative, in some cases. This occurs if the worker’s attachment to the firm is initially strong already. In this case, increased performance pay may actually increase organizational citizenship behavior.

⁶ MILKOVICH&NEWMAN (1999).

⁷ ORGAN (1988).

⁸ MOORMAN (1991)

⁹ “Atmosphere” and “attitudinal interactions” viz. inseparability refer to WILLIAMSON (1975: 37-39).

¹⁰ DECKOP, MANGEL & CIRCA (1999).

The interpretation given by the authors is that a worker with strong firm attachment will view a performance pay component as a sharing arrangement. Guided by reciprocity, he will reciprocate this gift in all dimensions, including extra job corporate citizenship activity. Such a worker views the employment relationship as a social exchange, guided by reciprocity and mutuality.¹¹ This explains the positive association between performance pay and corporate citizenship behavior.

The standard (negative) reaction can also be observed. It comes about when workers perceive performance pay as an incentive and behave accordingly. This can be expected if the workers are less attached to the firm and view the employment contract as an exchange contract, governed by *quid-pro-quo* considerations.¹²

The crucial issue is, therefore: What makes the workers perceive the employment relationship as a social exchange rather than a market exchange? This is obviously a question of interpretation given to the employment relationship.

I propose to answer this question in terms of attribution theory.¹³ The worker is faced with a multitude of organizational features which he perceives while working in the firm. He will try to make sense of what he sees and will attribute intentions and causes to the various regulations he observes, just as he would attribute intentions to another person interacting with him, in spite the fact that the “firm” is not an individual. The worker tries to develop a coherent picture of “the firm’s” actions and motives. This is the corporate culture, as perceived by the worker. The term “corporate culture” will be used in the sense of a shared coherent and unified perception of the firm’s dealings and policies.¹⁴

If the worker observes that fairness principles play a prominent role in the dealings of the firm with its constituents, stakeholders, and customers, he will conclude that considerations of fairness are an important feature of corporate culture. This interpretation will apply also to the employment contract, which will which will then be

¹¹ Sociologists and anthropologists speak of “generalized exchange” (*échange généralisé* - LEVI-STRAUSS). The term “reciprocity” has been initially introduced into economic anthropology in this sense (KARL POLANYI).

¹² The dichotomy “social exchange” and “quid-pro-quo exchange” underlying the study by DECKOP, MANGEL & CIRCA (1999) is extremely simplifying but useful for the present purpose; see SCHLICHT (1998, Ch. 13) on the interactions of different modes of control.

¹³ See ZIMBARDO & LEIPPE (1991: Ch. 3) for an introduction. VAN RAAIJ (1985) has advocated economic applications of attribution theory. In the following, I subsume a set of psychological theories and disregard many fine points in order to provide a starting point for the subsequent argument.

viewed as ruled by norms, rather than by scarcities, and will entail the interpretation of a social exchange. Such a perception will be strengthened by other observations, possibly quite unrelated to compensation. The firm may donate to worthy causes, for instance. As this behavior cannot be interpreted in terms of greediness, the terms of the labor contract will less likely be interpreted as brought about by greediness either.

On the other hand, the social exchange interpretation will be weakened if the firm behaves profit-oriented rather than norm-guided in some dealings, and without any valid excuse. If the firm requires the sales people to deal in a strictly profit-oriented, and even deceitful way with the customers, its corporate culture will be perceived as strongly concerned with profits. Such that this will strengthen the idea that the firm deals with the workers in the same manner, for instance. The workers will then be less inclined to see the employment relation as a social exchange.

3 Reciprocity

The attribution mechanism sketched above may contribute to elucidate the holistic nature of corporate culture and the attitudinal inseparability mentioned by WILLIAMSON, but it does not account yet for the influence of corporate culture on behavior.

One line of reasoning would run in terms of reciprocity. A worker who feels that he is treated fairly and generously will be induced to reciprocate in the same spirit. This amounts to interpreting the employment relationship as a social exchange. On the other hand, the firm may offer incentives which are directly related to the profitability of certain tasks. Such incentives will not be viewed as sharing arrangements or fair compensation, but rather will be perceived as dictated by the firm's desire to instrumentalise the worker in its pursuit of profits. The worker will reciprocate by emphasising his own interest. He will see the employment contract as a *quid-pro-quo* exchange. Each party will pursue its own interest and will perceive the other party to behave alike.¹⁵

¹⁴ This conception of corporate culture is different from the concept proposed by KREPS (1990), which refers to a focal point which serves to co-ordinate expectations and action.

¹⁵ See also the related argument by PRENDERGAST and STOLE (1999) that the suppression of intra-firm pricing may be understood in terms of easing interactions based on reciprocity.

4 Self-Attribution

Beyond reciprocity, corporate culture molds the workers' attitudes and behavior in another important way. Assume that the worker is faced with a corporate culture emphasizing fairness and mutuality. He will see the employment relationship as a social exchange. Reciprocity will make him behave in a similar way in his interactions. This will induce the self-perception that he is a person who places great emphasis on these motives. As his own actions are best interpreted in terms of norms and co-operative attitudes, the worker will develop a self-interpretation (an identity) emphasizing these attitudes.¹⁶

The converse may also happen. If the employment relationship is seen as a *quid-pro-quo* exchange, the worker will be induced to emphasize his personal interests, and he will develop a self-perception emphasizing these characteristics as personal behavioral traits and attitudes.

Through the mechanism of self-attribution, behavior shapes self-perception and motivation. Corporate culture molds individual identities.¹⁷

5 A Scenario of Increasing Job Idiosyncrasies

It is easier to automate easy tasks, and more difficult to automate more demanding tasks. The conveyor belt can be served by robots nowadays, and large segments of organizational work can be computerized. What remains is of largely idiosyncratic nature. As a consequence, job idiosyncrasies can be expected to become increasingly important. Previous master-servant relationships will turn into fiduciary relationships.¹⁸ By the same token, corporate citizenship behavior may become increasingly crucial as an element of a firm's performance.

Firms facing pronounced job idiosyncrasies can not rely on commands and incentives for controlling job performance or extra-job performance. Rather they have to rely on intrinsic motivation. It will pay in terms of profitability to inculcate a sense of duty and

¹⁶ Recent theorizing about identity in economics (AKERLOF&KRANTON 2000) and expressive rationality (HARTGRAVES HEAP 2001; SCHUESSLER 2000) relates directly to a desire for a coherent and clear self-interpretation. More general implications of the desire for clarity and consistency – beyond self-attribution – are discussed in SCHLICHT (1998).

¹⁷ The psychological concept of self-attribution refers to way in which persons attribute causes to their own actions. This differs from the usage of term by LANE (1991:155-180) which refers to attributing an internal locus of control to one's own action.

¹⁸ EASTERBROOK and FISCHER (1991)

responsibility in the employees, mainly because explicit monitoring and control becomes prohibitively costly under such conditions. As a consequence, firms will tend to adopt a corporate culture emphasizing mutual commitment and social exchange. Under such conditions, performance pay will be designed as flowing from overarching principles of fairness, rather than rational manipulation.¹⁹

In a scenario where social exchange becomes increasingly superior to *quid-pro-quo* exchange in the majority of firms, we can expect corporate cultures to emerge which emphasize commitment, fairness, and the joint pursuit of the firm's social mission. The profit motive will be presented as an goal subservient to higher ends, social exchange will be emphasized and *quid-pro-quo* exchange will be discounted.

Under conditions of increased idiosyncrasy, and somewhat paradoxically, it may be profitable to abate the profit motive in everyday dealings with workers, suppliers and clients by acting generously and respecting broader commitments. This will inculcate the attribution that the firm is a coalition of stakeholders, governed by reciprocity and co-operation.²⁰

6 The Cynics and the Generous

Modern compensation theory is quite aware of these possibilities but takes quite often a rather cynical view of organizational tasks, in the sense that a good corporate climate and an atmosphere of trust and reciprocity is recommended primarily as a means for profit maximization. Such a parlance suggests that organizational measures are just instruments for exploitation. Generosity and mutual respect are to be mimicked by management for the purpose of enhancing production and inducing the workers' identification with the

¹⁹ The emphasis on consistency and fairness in modern compensation theory, and the discounting of instrumental aspects in the design of performance pay witnesses this tendency. Neither the determination of piece rates by time measurement nor the Halsey method of splitting cost reductions 50-50 between employers and employees can be rationalized in terms of 'optimal' incentive design, see MILKOVICH and NEWMAN (1999).

²⁰ Such policies can be implemented in firms, not across markets. This thought provides a further reason for the establishment of firms. The requirement of coherence in the firm's policies restricts, however, the scope of such firms, thereby providing an argument for the limits of integration. If certain production lines or certain types of employment are incompatible with the established corporate culture, integration of such production lines may be harmful. The established principles of compensation policy may demand, for instance, that certain jobs (janitors and drivers, for instance) be paid much above the market wage. Paying them less would destroy the perception of a corporate culture based on reciprocity. A way out would be to disintegrate these jobs and hiring the corresponding services on the market. The reverse is equally true: The German electronics giant Siemens has, for instance, disintegrated a high tech division in order to offer higher pay for the corresponding jobs without being forced to increase the pay for the other jobs correspondingly (MUCKE 2001).

firm's goals, but not for reasons of fairness and mutuality, as entailed by trust and mutual respect.

Interpreted in this way (which I am going to criticize), the market would induce corporate cultures and policies fostering mutuality in cases where co-operation and trust are important. But all talk about mutuality would be delusion, as these policies are implemented for the reasons of exploitation. Such exploitation is veiled by the illusion of mutuality, in contrast to classical open exploitation, but such a hidden form of exploitation may be even more repulsive morally, as it involves deceit. Organizational measures are used to brain-wash workers and to mold them according to the firm's interest.

7 Cynicism, Generosity and Self-Attribution

The criticism of this view is as follows. Assume that it is profitable to create a corporate culture emphasizing mutuality. There are two types of managers who will succeed in such a market: the Cynics and the Generous. Both will behave alike. The Cynics will not believe in the values emphasized in their corporate culture, but they will preach these values and encourage them in order to increase profits. The Generous believe in these values. They preach and encourage them out of conviction. As a by-product, they will run profitable companies, just like the Cynics do.²¹ As a consequence, there will be no selection for Cynics and against the Generous in the market and in social evolution.

But people are not cynics or generous by nature. Rather, their character is molded by circumstances. Their identity is shaped by the way in which they interact with others. If I am a cynic but behave generously all the time, I will commence to see myself as a generous person. This will, in short, be the prediction made by the theory of self-attribution.

Applied to management, this argument would suggest that the Cynics will turn into Generous in the course of time if the market values generosity. If corporate cultures emerge which enhance mutual co-operation within the firm for reasons of profitability, these cultures may initially be motivated by and introduced for purely instrumental

²¹ The example of the Shakers comes to mind: Their religious convictions made them very reliable business partners, and they became economically extremely successful. They placed more weight on God than on profit, and this generated apparently more profits than straightforward profit maximization. See also ***.

concerns. But once they are implemented and are successful, people will start to believe in these values – even those persons who initially made them up and on purpose.

In other words, the self-attribution argument applies not only to workers, but also to management. Seen under this perspective, market processes may foster an atmosphere of social exchange.

8 Conclusion

It has been maintained by many writers that capitalism breeds selfishness because selfishness succeeds in the marketplace best. The considerations about work motivation in an environment characterized by increasing job idiosyncrasies suggest a different stance. In cases where motivation, involvement, and commitment are important, selfishness may be outcompeted by generosity. It is profitable to implement corporate cultures emphasizing social exchange rather than selfishness. Both the workers and management will tend, in the long term, to interpret their own dealings as flowing from broader commitments. Social evolution may enhance, rather than abate, co-operative attitudes and mutualism. The argument which has been invoked to portray the future of market economies as ‘annihilating the human and natural substance of society’ is turned upside down once the importance of the firms’ internal organisation is acknowledged.²²

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²² The quotation is from POLANYI (1944, 3).

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