

# **THE FIRM AS AN ACTOR IN SOCIAL STRUCTURE BUILDING**



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## **Introduction**

The Latsis Foundation has kindly given me the opportunity to present my research, which was awarded the Latsis Prize 1998 at the University of St. Gallen (HSG). I would like to thank the Latsis Foundation here once more for the honour of having been awarded the prize.

My presentation will give an overview of the questions treated in my post doctoral (habilitation) thesis entitled “Die Unternehmung als strukturpolitischer Akteur (The firm as an actor in social structure building). For details and the complete set of results reference can be made to the book version of my thesis which has been published this year under the same German title (Metropolis, Marburg/Germany, 1998).

### **From adaptation to co-design – a new perspective of business administration science to the firm and its political and social environment**

Western societies are characterised by leading sociologists like Anthony Giddens, Scott Lash or Ulrich Beck to be in a state of “reflexive modernisation” (Beck/Giddens/Lash 1994). The erosion of traditional values and social differentiation (like social “classes” or religion), the increasing importance of expert knowledge, processes of “globalisation” and the side effects of technological and societal developments (like the ecological crisis) are becoming the driving forces of political and social change.

One important consequence of “reflexive modernisation” is the need for new and revised social structures (institutions). What role *do* and *can* firms play in this social structure building process? The business administration science neglected this question up to now. It mainly concentrated on the analysis of market structures and developed convenient mechanisms of *adaptation* to these structures for business organisations. The active “co-building” of market, political and societal structures by firms was out of its scientific scope. But such structure

building processes are part of the day-to-day business of firms and their importance will grow in the future.

**Cooperation** between business and other organisations (business, political organisations and non governmental organisations (NGO) plays an increasing role in this process of building new institution. For solving **ecological problems** (a main focus of my thesis) such as new local, national and global governance structures gain high importance. Some examples shall illustrate this:

- On a **market level** cooperating firms along the value chain as well as industry associations define and establish ecological standards for suppliers and customers, which have the same relevance as official regulation.
- On a **political level**, voluntary agreements, i.e. negotiated rule making between governmental institutions and business firms resp. business associations, are a new and quickly developing element of solving environmental problems.
- On a **societal level** co-operative effort of and between business firms and environmental organisations is undertaken to promote new lifestyle patterns (e.g. in the areas of mobility or energy use).

The following paragraph will show that Giddens' theory of structuration helps us to understand how firms influence their market, political and societal environment actively.

### **Mechanisms of the codesign of social structures**

Usually business administration science works with a duality of the firm and its environment: the market, political and societal environment is seen as a given set of parameters. Corporations have to act within this predefined framework.

Giddens helps us to gain a new perspective to the firm's environment by his understanding of structure. He defines "structure" as "rules and resources, recursively implicated in the reproduction of social systems". Structure is not just "there", it is not "external" (Giddens 1984: 25). It is continuously reproduced in social contexts and consists of the rules and resources within this social environment. Let us take this

Latsis ceremony as an example of a social context to illustrate this understanding of structure:

This ceremony is structured by **rules** like forms of politeness used by the speakers, the choice of the language, the length of the speech, the prominence of the guest speaker, etc. as well as by **resources** like the applied presentation techniques, the authority of the speaker and the moderator.

These elements of structure only exist because they are reproduced by the actors in this room. They have no reality beyond our action. If I delivered my talk in German and over two hours –showing you different videos on the ecological problem– and if this was acceptable to you, this would also mean a change in the structure of this ceremony.

Giddens furthermore helps to differentiate rules and resources as basic elements of structure in more detail. Rules can be found in the form of interpretative schemes and norms. Resources can be allocative (material, giving power over nature and physical artefacts) or authoritative (non-material, giving power over others).

Why is Giddens' interpretation of structure of such an importance to a new understanding of the relationship of firms with their environment?

- It makes us aware of the fact that structures can be and are always influenced by actors. The business environment is “medium and outcome” (Giddens 1984: 25) of acting firms.
- The structuration theory helps to understand the ways of influencing and (re)producing structures in a very differentiated way. It explicitly takes into account resources and rules as well as their interaction to describe structure-building processes. Many other social and economic theories only refer to one of these dimensions. Thus the neo-classical economic theory concentrates on the reproduction of resources, it is “resource based”, social theories like the system theory reconstruct social reality as communication-processes, i.e. a mainly “rule based” approach.

Up to now Giddens' theory in the business administration science was mainly applied to understand social processes within organisations and within networks of organisations (Sydow 1996). In my work I tried to show that it is possible to go one step further: to understand markets, political arenas and public discourses, meaning the market and non-market environment of the firm, also as "structure" in the sense of Giddens. Following such an interpretation, markets, policy arenas and public discourses can all be understood as social playgrounds, which are constituted in the same manner: by the production and reproduction of rules and resources (i.e. structure). The differences between these different environments of firms are found in the meaning of the singular modalities (allocative and authoritative resources, interpretative schemes and rules) and the mode of their reproduction (Schneidewind 1998: 213 pp.)

There are three basic mechanisms for firms to intervene in these structures of their environment (Schneidewind 1998: 198):

1. By an **immediate influence on modalities** (rules and resources). For example by changing the content or the relative importance of interpretative schemes or norms. Or by mobilising or withdrawing resources from social arenas.

2. By the **change of actor sets**. I.e. resource constellations as well as rules in a social field can be changed by eliminating existing and by incorporating new actors in a social arena.

3. By the **change of reproduction mechanisms of rules and resources** in a social context. In most cases actors (here firms) reproduce rules and resources by routines. The structural effects are a mere unintended consequence. By enhancing the reflexive monitoring of actions or by bringing the consequences into a discourse with stakeholders, the reflexivity itself can have an effect on the change of norms and interpretative schemes.

## **The role of cooperation**

The last paragraphs showed us that firms influence their market and non-market environment. This process is mediated by drawing on rules

and resources in markets, political and societal arenas. We learned about different influence mechanisms of firms to do so.

Why has cooperation a special importance in these structure building processes? The theoretical framework helps to give answers to this question:

- Cooperation between actors mobilises new resources, which can be incorporated in the reproduction processes of social structures.
- Cooperation is a way to influence rules and the reproduction mechanisms of modalities, bringing actions into the discursive consciousness (from practical consciousness). It changes the level of “reflexivity” of action.

I want to illustrate this by a special kind of cooperation which is of growing importance in the field of environmental management: Cooperation between firms and non-governmental organisations (so called Business-NGO-Relationships: Murphy/Bendell 1997, Schneidewind 1998: 378 pp.). When firms are co-operating with environmental groups (as the most important NGO representative of environmental questions) structures in the market, political and societal spheres are very often changed. This influence is based on the mobilisation of complementary resources of the partners and by an enhanced reflexivity, which occurs when partners of different societal arenas have to co-ordinate their actions. I want to illustrate this by some examples in the Swiss and German context:

- At the beginning of the 1990ies the medium sized refrigerator company Foron of former East Germany started a cooperation with Greenpeace to promote a CFC-free refrigerator which was developed by Foron. (The refrigerator worked technically on a propane-butane-basis). Within two years this cooperation initiated a nearly complete technology change in the German refrigerator market. After strong resistance at the beginning all big refrigerator producers in Germany adapted the new technology and made the CFC-free refrigerator the market standard. This change of **market structures** was possible because Foron and Greenpeace joined their complementary resources: Foron brought into the cooperation its technical know how, Greenpeace

its media presence and high moral authority which convinced possible customers more than any “eco-label”. Greenpeace as well as other environmental organisations like the German section of “Friends of the Earth” (the German Bund für Umwelt und Naturschutz BUND) multiplied this kind of business-NGO-cooperation in the mid and late 1990ies and used it to promote –for example– the three litres car (Greenpeace, the car was developed by Swiss engineering companies) or ecologically optimised computer equipment (BUND and Cherry, the world’s leading producer of computer keyboards).

In the **political sphere** debates about environmental issues are characterised today by high complexity and divergent interpretations and norms. An important example of such a conflict is the discussion about an ecological tax reform. On the one hand environmental groups regard an ecological tax reform as the cornerstone of a socio-ecological change in western societies, on the other hand business and industry associations evaluate eco taxes as one of the most important threats to (national) competitiveness. Although many economic studies and the experience of countries which already have introduced eco tax regimes show that eco taxes are a way to diminish unemployment rates and that the “winner industries”, especially in Europe, are of much more importance than energy-intensive “losers” of an eco tax, these confrontation patterns nearly have not changed in Germany over years. Or in the language of the structuration theory: the routine reproduction of norms and interpretative schemes in the political and societal debate was not effected by scientific research. This situation was used by some environmentally aware corporations (many small and medium sized, but also companies like AEG Hausgeräte, one of the biggest household equipment producers in Germany) to join in a partnership with the (by members) biggest German environmental group BUND (German section of Friends of the Earth International). A series of advertisements was published in important German newspapers and in magazines where the participating firms and the BUND demand in cooperation the introduction of an ecological tax reform in Germany. This advertisement series was published in 1994 and in 1998 shortly before the elections for the national parliament. The goal of this campaign was to change

common interpretative schemes about the opposing “fronts” in the eco tax debate. It should illustrate that there are not the environmental groups on the one hand and business on the other hand, but that there is a broad group in the business society which regards an ecological tax reform as a sound economic measure.

- The change of western society towards more “sustainability” is not only influenced by inter-business competition and political decisions. The **change of lifestyle** and consuming patterns plays a basic role. Without such a change in consumers’ and voters’ preferences the possibilities of firms and politicians to act more environmentally sound are also restricted. Lifestyles can be seen as a complex mixture of norms, interpretative schemes and allocative resources for the realisation of consumers’ wishes. The reproduction of these rules and resources is –among others– influenced by (social) milieus, by communication strategies and by the product policy of firms. One important field of application for new lifestyle patterns is mobility. The enormous growth in the per-capita rate of automobiles and of km-driven-per-year in western societies causes severe ecological effects. The search for new –environmentally more sound– mobility concepts has to take into account the tight links by which cars are integrated in the lifestyle patterns of western societies. Isolated support for the public transport or the arise of new organisational solutions for individual mobility like car sharing only had marginal success. In 1998 the Micro Compact Car Corporation (MCC Inc., a joint venture of Daimler Benz and the SMH-Holding of Nicolas Hayek, the founder of Swatch) tried to go a new way based on cooperation with former NGO’s. The “Smart” (the very short, two person sized, new MCC-Car) is understood by MCC as an access instrument to a whole mobility network. People are able to own –like before– a car and can cultivate the patterns which are usually connected to the “own” car. But by the owned car not all mobility needs are satisfied anymore. The Smart rather gives access to many other sorts of mobility (rail, public transport, car sharing). To realise this concept, business-NGO relationships play an important role. In Switzerland MCC co-operates with the car sharing initiative “Mobility”. This car sharing initiative started on a volunteer basis and

is today the biggest car sharing initiative in Switzerland. By buying a “Smart” every Smart owner becomes automatically member of Mobility without paying a fee. This cooperation, which has the potential to be enlarged in future – e.g. by incorporating partnerships with environmental groups for the promotion of the new mobility patterns as well as for a critical reflection of side effects of these new concepts– are supported by a communication and product policy, which promote a new attitude towards individual mobility trying to overcome existing “rules” in this field.

The three examples illustrate that structuration theory helps us to better understand new forms of business cooperation in the environmental field and gives us hints how to develop firms as responsible actors in social structure building in the future.

## **Outlook**

The theoretical framework, which I presented to you here, is just a beginning of a broad debate in the business administration science about the structure building role of firms. I want to stress three aspects of importance for the future work:

- Empirical based research in the field has to be intensified. The presented framework –based on Giddens structuration theory- only helps us to describe the structure building effects on a very general level. It is necessary to understand in more detail how the reproduction processes of rules and resources in markets, political arenas and societal discourses are influenced by firms and industry-associations. This research has to be interdisciplinary and needs strong cooperation between sociologists, political scientists and psychologists.

Firms as actors in social structure building raise many normative questions. If actions of firms are not ruled anymore by democratically legitimated frameworks, because business is co-producing its own frameworks, a discussion about corporate responsibility and new legitimation procedures is necessary.

If the debate about “reflexive modernisation” is taken seriously, the role of firms (esp. multinational corporations) as actors in social

structure building will gain importance and business leaders are needed, who match this new dimension of responsibility. This makes it necessary to become aware of the structure building effects of corporate business activity already in business schools. A subject which has up to now been largely neglected.

Thank you very much!

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