Why 'Socially Responsible' Isn't Enough

BY MARJORIE KELLY

As nations become democratic, corporations remain feudal.

I found in my files the other day a dog-eared set of overheads, "Ten Trends Toward Socially Responsible Business"—the verbal bones of what for years was my standard speech. It was a can-do, chin-up kind of talk, about environmentalism, family-friendly policies, employee ownership, codes of conduct, cause-related marketing, participatory management, and the rest. It's not a speech I give any more.

Such cheerfulness would feel uncomfortable today. The cruel truth is that employees are afraid to use those shiny new "family-friendly policies." Even at "participatory" workplaces, employees have zero say in basic issues like computer monitoring, drug testing, or wage rates. There are good companies and new ideas out there. But they're marginal. The more fundamental corporate spirit is at work in the resurgence of sweatshops abroad, stagnant wages and layoffs at home—while the Dow approaches 8000.

Our efforts haven't been wasted. We might call them warm-ups. It's as though we entered the halls of business to make change, and spent time putting up curtains and painting pillars. Things feel brighter, but we haven't changed the structure: that some folks are out front doing all the work, while others in back are pocketing the gains.

As *Business Ethics* hits the ten-year mark and I survey progress, I face an inescapable conclusion: It's time for deeper renovation. It's time to lay aside the paint brushes and think about widening that back room: taking down the wall dividing stockholders from employees. It's a conceptual wall, but one that takes tangible form in the division of wealth. It's based on an archaic notion: that property owners are a higher class of being whose interests are paramount, while workers are a lower class who exist only to serve. This makes it permissible, even mandatory, to reduce wages paid to one group, so as to increase profits paid to another. It allows us to believe that only those in the back room have a legitimate vote in governance, that the corporation exists to serve them alone. It's a premise that says stockholders are citizens of the corporation, while employees are subjects.

It's uncannily similar to the feudal structure, which said the aristocracy *was* society, and everyone else existed to serve them. It's similar to the imperial structure that said India existed to enrich Great Britain. Or to the plantation structure that said slaves existed to enrich their masters.

Like the corporate structure, all of these older structures found their legitimacy in the concept of "ownership." The aristocracy owned land. Great Britain owned India. The Southern gentry owned slaves.

But we have since learned that some forms of ownership are legitimate, others illegitimate. The notion that a distant colonial power could "own" entire nations became discredited, the notion that natives were "outsiders" on their own soil became repugnant. Yet still we embrace the notion that distant stockholders "own" corporations, that employees are "outsiders" in their own workplaces.

We persist in this notion because we see the corporation as a piece of property that can be owned. We have yet to acknowledge the truth: that a corporation is a human community. And like all human communities, it must be democratic.

While nation after nation makes the passage to democracy, corporations remain feudal. They view themselves as private estates owned by stockholders. But what do stockholders "own"? Tangible assets? If so, then they're getting a free ride—extracting wealth not legitimately theirs—on three-quarters of company market value.

Consider: At year-end 1995, according to *CFO* magazine, fixed assets of Standard & Poor's 500 companies totaled $1.2 trillion. Market value was $4.6 trillion. Which means intangibles were $3.4 trillion—*three times* fixed assets. Included in intangibles is discounted future value, plus things like reputation. But also included is knowledge base—or to call it by its real name: employees.

There is a powerful case that employees have a property right in corporations—and that stockholders have an *illegitimate* right to much of the gain they're pocketing. We might prove the case in the market, with a simple question: What is a company worth *without* its employees?

Imagine a merger. A company goes into play, and employees decide they're not coming along—all employees, from the CEO to the janitor. They tell the buyer, "You can buy this company, but you can't buy us. Let's see what the bare assets are worth." Valuation specialists are called in to draw up relative values.

Let's say a $1 billion company—stripped of all human knowledge—is worth $400 million. Then the value of the employee presence is $600 million. Should employees decide to come along, that's the amount of stock they get: $600 million. Or should the buyer turn tail and run, employees might sit down with the board and make the same demand: "We have now seen employees are worth $600 million, so we demand that much in stock, or we're leaving, tomorrow." Faced with "governing" a pile of lifeless assets—files no one can find, machines no one knows how to run, customers no one has heard of—a board might come to a decision quickly.

Imagine if this occurred at even one major company. What tremors would go through boardrooms nationwide? We might find ourselves recalling Gandhi confronting the British overlords. Thomas Jefferson standing up to King George. Abraham Lincoln facing off with slaveholders. And we might find ourselves, one day, looking back on the era of "socially responsible business" as the ripple before the wave.

Of $4.6 trillion in market value of Standard & Poor's 500, amount represented by:

Fixed assets	Intangible assets
26%	74%

Year-end 1995 values, cited in CFO magazine.