Social Evolution, Corporate Culture, and Exploitation

by

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“... the moral basis of capitalism will be seen as being constantly depleted and replenished at the same time.” Albert HIRSCHMAN [1977]

It has been claimed 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 organization, rather than market interaction, in moulding cultural traits. Firms emerge in markets and thrive by kindling cooperative attitudes. In this way, the market generates nice traits in an indirect way: it encourages firm organizations that foster mutualism rather than selfishness. (JEL: A 13, A 14, B 52, D 21, D 23, L 14, L 22)

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 that prevail in society. The theory of social evolution proposes that attitudes that entail successful behaviours will be adopted and maintained more readily 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 (HIRSCHMAN [1977]).

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. (Surveys are provided by HIRSCHMAN [1977] and BOWLES [1998].) Some see this process as a process of civilization, 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 that enhance social interaction and render the market system workable – like trust,

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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 (Polanyi [1944]).

These arguments have been developed with an emphasis on price competition in markets as the dominant mode of social interaction. In his comprehensive account, Bowles [1998, p. 78] observes at the beginning 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 in the people who make up a society. However, his subsequent analysis addresses almost exclusively the bad effects of markets on cultural traits, though he emphasizes the importance of business morality for incomplete contracting. Yet evidence suggests that marketization enhances – rather than abates – cooperative traits (Ensminger [2003]).

This paper urges that cooperative traits are shaped within firms and families, where most social interaction takes place – even in modern market economies. These are institutions and organizations that do not rely on the price mechanism for purposes of internal coordination, yet they are brought about and stabilized by market forces. People spend most of their time in such organizations, and less of their time shopping. The argument fits well with recent theories about the emergence of cooperation that emphasize local interaction rather than anonymous market interaction as fostering cooperation.¹

In the following I will concentrate on the influence of firm organization on the evolution of cultural traits. The internal organization of firms 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 more important than market interaction. In addition it has been shown that traits and attitudes that are moulded by the workplace generalize to other domains of life (Kohn and Schooler [1983]). Such indirect effects on attitudes and behaviour 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 behavioural inclinations of the employees. Market success determines which organizational structure is chosen. Organizational forms that generate productivity-enhancing attitudes will outcompete others, and market forces will ultimately encourage corresponding traits. If cooperation is of great productive value, for instance, the market will engender, via its influence on firm organization, cooperative attitudes. Under such circumstances it would be wrong to insist that the

¹ Bergstrom and Stark [1993] and Esfah, Samuelson, and Shaked [1998] refer to local nonmarket interaction, rather than to interaction in anonymous markets, for example.
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 that work in the opposite direction.

In more familiar language, the argument can be rephrased in terms of the working 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 workers’ responsiveness to those incentives, or their motivation (Bowles, Gintis, and Osborne [2001]). The position taken here – and shared by many industrial psychologists and compensation theorists – is that the implementation of compensation policies provides incentives and at the same time shapes the workers’ responsiveness to these incentives along with their overall work attitude. Applying economic incentives while disregarding their motivational effects could entail ruinous consequences.2

The traditional principal–agent framework neglects the motivational aspects of incentives, i.e., their effects 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 that is taken up here (Milkovich and Newman [1999], Baron and Kreps [1999]).

2 Organizational Citizenship and Corporate Culture

Recent discussion in organization theory has emphasized the importance of organizational citizenship behaviour (Organ [1988]). Organizational citizenship behaviour refers to activities that foster the firm’s goals but are not directly job-related and not rewarded. Typical instances are helping other workers with their tasks, voicing concerns, defending the firm’s policies, and making favourable statements in public. It has been urged that perceived fairness encourages organizational citizenship behaviour, while unfairness undermines it (Moorman [1991], Rob and Zemsky [2002]). In a more general way, the literature on “corporate culture” emphasizes the influence of “atmosphere” and “attitudinal inseparability” on performance (Williamson [1975, pp. 37ff.]).

“Atmosphere” and “corporate culture” are holistic concepts. They refer to the ways in which an entire organization is perceived. The effect of these holistic influences is well illustrated by a recent study on performance pay (Deckop, Mangel, and Circa [1999]). According to standard theory, an increase in performance pay...

2 As a matter of semantics, I take a “motive” as a goal – the money motive, for instance. If the desire for money is intensified, the motive is strengthened. An incentive takes such a motive and its strength as given and uses it by attaching satisfaction of the motive to certain activities – using a money payment, for instance. The “detrimental effect of reward” would be an example of a motivational effect; see Deci [1971] and Lepper and Greene [1978]. The motivational effect considered in this paper is of a different kind, though.
will lead to an increase in the rewarded activity and to a corresponding decrease in other activities. Earlier studies of organizational citizenship behaviour have conjectured that performance pay reduces organizational citizenship behaviour and have for this reason been skeptical about economic incentives. The study by DECKOP, MANGEL, AND CIRCA [1999] finds, in contrast, that the effect of performance pay on corporate citizenship behaviour may in some cases actually turn out to be positive rather than negative. This occurs if the worker’s attachment to the firm is initially strong.

The interpretation given by the authors is that a worker with strong loyalty to his firm will view a performance pay component as a sharing arrangement. Guided by reciprocity, he will reciprocate this gift in all dimensions, including extra corporate citizenship activity. This explains the positive association between performance pay and corporate citizenship behaviour.

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.

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

I propose to answer this question in terms of attribution theory. The worker perceives a multitude of organizational features 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. He 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.

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 then conclude that considerations of fairness are an important feature of corporate culture. This interpretation will apply also to the employment contract, which will then be viewed as ruled by norms, rather than by scarcity, and will entail the interpretation as a social exchange.

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3 Experimental evidence for this effect is provided in FEHR AND GÄCHTER [2002] and GÄCHTER AND FALK [2004].

4 The dichotomy of social exchange versus quid pro quo exchange underlying the study by DECKOP, MANGEL, AND CIRCA [1999] is extremely simplifying but useful for the present purpose; see SCHLICHT [1998, ch. 13] on the interactions of different modes of control. See HOLLÄNDER [1990] for a theory of social exchange.


6 This conception of corporate culture is different from the concept proposed by KREPS [1990], which refers to a focal point that serves to coordinate expectations and action.
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 behaviour cannot be interpreted in terms of greed, the terms of the labour contract are less likely interpreted as brought about by greed either.

On the other hand, the social-exchange interpretation will be weakened if the firm’s behaviour is profit-oriented rather than norm-guided in some of its dealings, and without any valid excuse. If the firm requires the salespeople to work with customers in a strictly profit-oriented and even deceitful way, its corporate culture will be perceived as strongly concerned with profits. This strengthens the idea that the firm might deal with the workers in the same manner. They will then be less inclined to see the employment relationship as a social exchange.

3 Reciprocity

The attribution mechanism sketched above may contribute towards elucidating the holistic nature of corporate culture and the attitudinal inseparability mentioned by Williamson, but it has not yet accounted for the influence of corporate culture on behaviour.

One line of reasoning would run in terms of reciprocity. A worker who feels that he is treated fairly and generously will be inclined 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 only incentives that are directly and visibly related to the profitability of certain tasks. Such incentives will not be viewed as sharing arrangements or fair compensation, but will rather be perceived as dictated by the firm’s desire to instrumentalize the worker in its pursuit of profit. The worker will reciprocate by emphasizing his own advantage. 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 as behaving alike.7

4 Self-Attribution

Corporate culture moulds the workers’ attitudes and behaviour in another important way. Assume that the worker is faced with a corporate culture emphasizing fairness and mutuality. He will then see the employment relationship as a social exchange. Reciprocity will cause 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 cooperative attitudes, the worker will develop an identity that emphasizes these attitudes.8

7 See also Prendergast and Stole [1999], who argue that the suppression of intrafirm pricing may be understood in terms of easing interactions based on reciprocity.

8 In other words, the fundamental attribution error (Ross [1977]) is invoked with regard to self-attribution. Recent theorizing about identity in economics (Akerlof
The reverse 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 behavioural traits and attitudes.

Through the mechanism of self-attribution, behaviour shapes self-perception and motivation. Corporate culture moulds individual identities.

### 5 A Scenario of Increasing Job Idiosyncrasies

It is easier to automate easy tasks, and more difficult to automate more demanding tasks. Nowadays the conveyor belt can be served by robots, and large segments of organizational work can be computerized. What remains is work of a largely idiosyncratic nature. As a consequence, job idiosyncrasies can be expected to become increasingly important. Previous master–servant relationships will turn into fiduciary relationships (EASTERBROOK AND FISCHEL [1991, ch. 4]). In the same way, corporate citizenship behaviour will become increasingly crucial as an element of a firm’s performance.

Firms facing pronounced job idiosyncrasies cannot rely on commands and incentives for controlling job or extrajob performance. Rather they have to rely on intrinsic motivation. It will pay in terms of profitability to inculcate a sense of duty and 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.⁹

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 that emphasize commitment, fairness, and the joint pursuit of the firm’s social mission. The profit motive will be presented as a 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 would be profitable to abate the profit motive in everyday dealings with workers, suppliers, and clients by acting generously and respecting broader commitments.

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⁹ The emphasis on consistency and fairness in modern compensation theory, and the discounting of instrumental aspects in the design of performance pay, bear witness to 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].
This would inculcate the attribution that the firm is a coalition of stakeholders, governed by principles of reciprocity and cooperation.¹⁰

6 The Problem of Exploitation

Modern compensation theorists are quite aware of these possibilities but take a rather cynical view of organizational tasks, in the sense that a good corporate climate with 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 of exploitation. Generosity and mutual respect are to be mimicked by management for the purpose of enhancing production and inducing the workers’ identification with the 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 about to criticize), the market would induce corporate cultures and policies fostering mutuality in cases where cooperation and trust are important. But all talk about mutuality would be delusive, as these policies would be implemented for 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 brainwash workers and to mould them according to the firm’s interest.

7 Cynicism, Generosity, and Self-Attribution

My criticism of this view is as follows. Consider an economic environment that makes it profitable to create a corporate culture with an emphasis on mutuality. There are two types of managers who will succeed in such a market: the cynical and the generous. Both will behave alike. The cynical 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 will believe in these values and will preach and encourage them out of conviction; and as a by-product, they will run profitable companies, just as the cynical do.¹¹ There will be no selection for the cynical and against the generous in the market and in social evolution.

But people are not cynical or generous by nature. Rather, their character tends to be moulded by circumstance. Their identity is shaped by the way in which they

¹⁰ Such policies can be implemented in firms, but not across markets. This thought provides a further reason for the establishment of firms. The requirement of coherence in the firms’ policies restricts, however, the scope of such firms, thereby providing an argument for the limits of integration MUČKE [2001].

¹¹ The example of the Shakers comes to mind: Their religious convictions made them very reliable business partners, and made them economically successful. They placed more weight on God than on profit, and this apparently generated more profits than straightforward profit maximization.
interact with others. If I am a cynic but behave generously all the time for whatever reasons, I will begin to see myself as a generous person. This will, in short, be the prediction made by the theory of self-attribution (SCHLICHT [1998, ch. 9]).

Applied to management, this argument would suggest that the cynical will turn generous in the course of time if the market rewards a generous corporate culture. The implementation of such a corporate culture may initially be motivated by the search for profit. But once it is successfully implemented, people will start to believe in these values – even those who initially made them up on purpose.

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

8 Adam Smith Reversed

Adam Smith argued forcefully that an increased division of labour, so important for enhancing the affluence of a society, would, at the same time, entail a deplorable impoverishment of human character:

"In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations, frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects are perhaps always the same, or very nearly the same, has no occasion to exert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life" (SMITH [1776/1976, pp. 302f.]).

He proposed public education as a means to counterbalance this harmful tendency. In discussing the effect of the division of labour on individual attitudes, Smith neglects the organizational repercussions that are emphasized in this paper, but Smith’s contention can readily be extended to cover the case. He suggests that the deepening of the division of labour entails a disqualification of labour. The idiosyncratic work of medieval artisan-workers is reduced to simple operations. Issues of corporate citizenship are becoming less important, and the advantages of creating an appropriate corporate culture would be much less pronounced.

The argument presented here reverses this classical position. The supposition is that that technical progress induces changes in the nature of work and work organization that will encourage social exchange. In a Smithian vein it could be added that the tasks left for human workers will require increasingly more intelligence and
involvement in the course of technical progress – an insight emphasized by Alfred Marshall a hundred years ago (MARSHALL [1920, pp. 208–221]).

The argument hinges on the character of technical progress. Its nature determines which development will take place – Smith’s or Marshall’s path. In this sense, the thesis of this paper is conjectural. If technical progress leads to the disqualification processes envisaged by Smith, and to a necessity of introducing authority and command rather than social exchange in firms, we must expect dire consequences with regard to attitude formation. If technical progress entails, in a Marshallian vein, richer work environments and an increased necessity to rely on mutualism and social exchange, we can expect the pleasanter consequences emphasized in this essay.

Further, the thesis speaks neither in favour of nor against market organization as such. It does not say, in any absolute sense, that the market is good or bad with respect to the development of human faculties and attitudes. An ideal planning system – whatever that might be – could be expected to foster work environments appropriate to the prevailing technologies in a very similar way. The issue of attitude formation relates primarily to the effects and exigencies of the division of labour.

9 Market Repercussions

An increase in the importance of idiosyncratic work will foster corporate cultures that cope with the entailing necessities of commitment, informal cooperation, and corporate citizenship. By reducing the need to safeguard against opportunism in market transactions and by enabling relational exchanges, such cultures enhance market performance. Their drawback is that they may constrain and hamper many other market processes, especially in the labour market.

Assume a business environment fostering corporate cultures that emphasize fairness requirements. This would include an emphasis on a “consistent” internal wage structure and a corresponding decoupling of wage-setting processes within firms from prevailing market conditions. Market-clearing problems of the type emphasized by efficiency-wage theories and insider–outsider theories could become endemic (MÜCKE [2001]). One political answer to these developments would be suffocating the corporate cultures that emphasize fairness concerns. This would eliminate the problem but at the same time hinder the development of socially and economically productive attitudes. A better response would be to find ways for keeping the labour market functioning in an environment of cooperative corporate cultures (SCHLICHT [1995]). Such a policy, if feasible, would foster those socially beneficial attitudes. The position is similar to that taken by Adam Smith. He glorified the virtues of the division of labour and recommended policy measures to cope with the disadvantageous side effects; the present argument glorifies “nice” corporate cultures and recommends the development of remedies against the entailed market failures.

12 Some empirical support for this view may be found in ACEMOGLU [2000].
13 This trend is reflected in wage policies advocated in modern textbooks; see MILKOVICH AND NEWMAN [1999] or BARON AND KREPS [1999], for instance.
It has been maintained by many writers that capitalism breeds selfishness because selfishness succeeds best in the marketplace. 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. Under such circumstances it is profitable to implement corporate cultures that emphasize social exchange rather than selfishness. Both 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, cooperative attitudes and mutualism. The argument that has been invoked by Polanyi [1944, p. 3], 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 organization is acknowledged.

References


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