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#28 All Social Standards are Local (or are They?)

While social standards have imprecise parameters, they are no less real (and important to society) than technical standards. Unlike their moral cousins, religious standards, social standards have no written reference point. In consequence, while religious standards of conduct are understood in more or less the same way by people the world over throughout long periods of time, social standards tend to be in a state of constant evolution.

Because social standards involve how those with whom we interact view us – favorably or otherwise -- they are intrinsically local. For example, behavior that would be viewed favorably in a "get ahead" society like America might be seen as unacceptable in a more traditional, class-based society.

Social standards tend to stabilize society, whether they instantiate moral values or not, since they regulate behavior without the need for enforcement by formal authorities. One reason they work so effectively is because social reaction follows social action so directly and (often) decisively, creating an ongoing feedback loop: act one way, and people we know think we are "good," and choose to associate with us. Act another way, and people we know think that we are "bad," and disassociate themselves from us. If we care more about the company of others than we do about gaining the monetary or other rewards that "bad" behavior may reap, then we act in the way that will be viewed as "good."

The result is that one of the most powerful types of standards that regulates human behavior is, by nature, powered by local perceptions. If our actions will only have a negative impact at a great and anonymous distance, then a different type of regulating force is needed to control our actions: moral conviction (we do what is right because we would respect ourselves less if we didn't); religious concerns (Someone else would think less of us); or the force of law (we might not only be fined or go to jail, but those around us would learn of our bad conduct, subjecting us again to the force of social standards).

Local, social forces can (or at least used to) have a significant impact on how corporations behave. For a time, those forces encouraged corporations to become better and better social citizens. In recent years, however, almost all of the evolutionary changes in modern commerce have acted to neutralize this effect.

Let us see how this process has played out, and whether other types of social standards have evolved to compensate for the loss.

100 years ago, most businesses of every type in the United States (as elsewhere) were owned and operated locally. Most service, retail and manufacturing businesses were still relatively small, and typically employed anywhere from a handful to a few hundred persons. Manufacturing concerns were largely family owned or controlled and, even as they employed an ever-larger percentage of the workforce, still usually operated out of a single, local, manufacturing facility.

Those who owned such businesses in the years before income and inheritance taxes became significant could accumulate significant wealth, and became the pillars of the communities in which they lived. In that role, they were expected to support their communities by taking leadership positions on charitable, educational and local bank boards, and to generally exhibit a concern for the welfare of the community.

Business owners that raised capital were even more closely tied to local opinion. In those pre-SEC times, stock was often sold locally in a face to face process, just as seeking angel investors occurs today. The founder of the Fort Howard Paper Company actually sold the initial shares of his company door-to-door. Those that bought into the new venture were fortunate indeed to have been at home when the founder rang the bell. In that era, those who purchased stock looked forward not to public offerings or the eventual sale of the company, but active economic participation in the business through receiving dividends.

Sadly, social standards did not much benefit those on the shop floor, since those that owned the companies, sat on the bank and charitable boards, and lived in the big houses on the hill did not mix socially with "the lower classes." Because owners socialized with others who were well to do, a different force – unionization – was needed to upgrade the working conditions of those that supported the owners. But eventually, the values of society in general changed, and a business owner might find himself judged by his social peers in part based upon how he treated those that he employed.

By the 1960s, corporations achieved what might be considered the high point of domestic social responsibility, with some glaring exceptions involving practices such as polluting the environment that had not, as yet, been identified as examples of bad corporate citizenship. True, profit was important, but so were pension plans, reliable dividends, and supporting the local community. A significant percentage of the productive capacity of America was still closely held, and therefore management decisions could be shaped as much by social forces as profit motives, if the owner so chose. A local owner would not be likely to fire10% of the breadwinners in his hometown to relocate his factory abroad, unless he planned to relocate his family as well.

In the 1970s, corporate pensions were a major and increasing source of support to those in retirement. The assumption of both a blue as well as a white-collar worker was that he could not only work for a strong company for life, but that the same company would support him through retirement as well. Likewise, widows and orphans could own a portfolio of blue chip stocks and bonds, and expect to hold that portfolio over time, focusing on current return rather than on speculative increases in value. And a Boeing or a First National Bank of Boston was expected to be a major supporter of the community in which it was based, generation after generation.

Since then, of course, the basis for each of these assumptions has changed dramatically. New companies create 401(k) programs that carry no permanent funding obligations, and their managements not only plan on expanding and contracting their work forces in synch with economic conditions, but hope for a certain rate of turnover so that they can re-hire at the bottom of the pay scale.

Stock is now a poker chip rather than a long-term hold, and few new companies intend to ever pay a dividend. Rather than aspiring to one day achieve listing on the Big Board, NASDAQ has become the place to be. And with consolidation, one corporate headquarters after another has become just another branch office of a conglomerate, with far-reduced incentives to support local institutions.

The same consolidation has weakened social conduct towards workers as well. Wal-Mart can purchase its goods abroad and pay the lowest possible wages at home in part because there is no local accountability for its actions. Those who make the decisions are not part of the community that is affected. Ironically, those who most need the low prices that a Wal-Mart can offer are those under-educated, laid off, formerly well paid manufacturing workers whose market value has suffered most from the business model that makes the same low prices possible.

What all this means is that in order for social concerns to still have an effect on corporate behavior, they need to be expressed through direct action, rather than through the force of unspoken social standards of conduct. Since affecting the actions of large corporations is not easily accomplished, a significant number of people must agree on what conduct is unsatisfactory before the necessary consensus can form from which meaningful action can flow. In other words, while the social standards of a village can still affect behavior, that village must now be national, regional, or even global before sufficient weight accumulates to actually affect corporate conduct. And rather than a snub at the country club, an impact on the bottom line is now necessary to do the job.

Today, this is accomplished at two primary points: at the ownership level, through selectivity in stock purchases and through shareholder initiatives, and at the customer level, through selective shopping and the occasional public call for a boycott.

To date, the latter point of pressure has been the more successful than the former. Even without organizing boycotts, the success of the first hybrid cars to be offered to the public is already affecting design decisions in Detroit. The sneaker buying habits of socially conscious, upscale purchasers has also had an impact on how manufacturers treat their direct and indirect employees in Third World countries.

Still, if socially conscious investment funds become more popular, they may also have as significant an effect, especially if a tipping point in mutual fund investment choices is passed at which their decisions will propagate through the marketplace. Once social investing becomes significant enough to affect stock prices (if, indeed, that does occur), then even those that are only financially motivated will also demand ethical behavior on the part of public companies.

But how does one determine what the standard of proper corporate conduct is, and who is entitled to make that determination? Absent a standard, will corporations be conforming to "social standards" in the traditional sense, or simply economic market forces, with buyers of stock and shoes simply designating different types of product production methods (for example) as being desirable in addition to color and style?

It as at this point that the worlds of social standards and technical standards meet. Last year, ISO, the International Organization for Standardization, formed its first committee to set a non-technical standard. The subject matter? Corporate responsibility. In the future, corporate board members will be able to decide whether or not to adopt standards of corporate conduct that are more comprehensive and consistent, rather than reacting simply to the headlines of the day.

But will this really be a return to social standards in the sense of "doing right because I want to be seen as good," or simply a new way to lower the volatility and increase the earnings multiples of a company's stock?

Probably the latter. At the end of the day, the impact is the same, even if an old and wholesome dynamic in the marketplace fades from view, perhaps forever.

Comments? updegrove@consortiuminfo.org

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