

# Corporate Social Performance, Stakeholder Orientation, and Organizational Moral Development

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**ABSTRACT.** This article begins with an explanation of how moral development for organizations has parallels to Kohlberg's categorization of the levels of individual moral development. Then the levels of organizational moral development are integrated into the literature on corporate social performance by relating them to different stakeholder orientations. Finally, the authors propose a model of organizational moral development that emphasizes the role of top management in creating organizational processes that shape the organizational and institutional components of corporate social performance. This article represents one approach to linking the distinct streams of business ethics and business-and-society research into a more complete understanding of how managers and firms address complex ethical and social issues.

Just as individuals differ in how they respond to ethical dilemmas, organizations also differ in their responses to ethical issues. Ethical behavior and moral development have emerged as important topics for managers as well as for academic study over the past decade. However, most research on moral development has focused on the individual rather than the organization. This paper draws parallels between individual and organizational moral development. It suggests that organiza-

tions, like individuals, can exhibit different levels of moral development that are parallel to the levels displayed by individuals. But organizational moral development is necessarily more complex than individual moral development because organizations are composed of many persons at different hierarchical levels with disparate beliefs, values, and interests, and also many processes that require coordination. Organizations are also embedded in societal and institutional environments that create expectations and standards of behavior for individuals and entities. An organization's social performance is judged in large part by how it addresses stakeholder relationships and issues. Integrating concepts about individual and organizational moral development with concepts about corporate social performance and stakeholder orientation strengthens understanding of complex decisions and outcomes.

In this paper we begin with an explanation of how organizational moral development is parallel to Kohlberg's categories of individual moral development. Then we integrate the levels of moral development with concepts in the literature on corporate social performance and stakeholder theories. Finally, we propose a model of organizational moral development that emphasizes the role of top management in creating organizational processes that shape the organizational and institutional components of corporate social performance.

## **Moral development of individuals and organizations**

Kohlberg's (1969, 1976, 1981) theory of moral development combines moral philosophy with

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cognitive psychology in asserting that individual cognitive development is a necessary prerequisite for moral reasoning. Kohlberg's theory has had a significant impact on behavioral science and business ethics and is purported to be the most widely tested and popular theory of moral reasoning (Endler et al., 1978; Trevino, 1992). Kohlberg's theory has at its center the notion that moral reasoning develops throughout childhood and adolescence in predictable stages. At the highest level of moral development, the adult is capable of moral reasoning using abstract universal principles, such as human rights and justice, but Kohlberg's and others' empirical research found that most people did not reach the highest level (Colby et al., 1983). Instead, most people were able to function at the level of peer and legally supported expectations. Just as Jones (1995) posits an analog between individual and corporate morality, we argue in this paper that organizations exhibit levels and stages of moral development, and these levels and stages

are analogous to Kohlberg's theory about individuals (see also Reidenbach and Robin, 1991, and Sridhar and Cambrun, 1993).

The parallel between Kohlberg's description of individual levels and stages of moral development to those of organizations is straightforward and indicated in Figure 1. Kohlberg's model identifies six stages that can be distinguished in individual moral reasoning, based upon the relationship to others and to society's moral rules (Trevino, 1992). The first two stages comprise the *pre-conventional* level of moral development in which behavioral norms are viewed as external to the individual. The rationale for behavior is to seek pleasurable consequences and avoid negative consequences to oneself. In the first stage, obedience and punishment, the self-centered individual defers to power and obeys rules only to avoid punishment. In the second stage, instrumental purpose and exchange, the individual takes others' interests into account only when that will ultimately benefit oneself.

Kohlberg's Categories	Rationale and Motivation Applied to Individuals	Rationale and Motivation Applied to Organizations
<i>Pre-Conventional Level</i>		
Stage 1: Obedience and punishment	Act to avoid painful consequences to oneself.	Act to avoid painful consequences to the organization.
Stage 2: Instrumental purpose and exchange	Act to further one's interests.	Act to further one's interests.
<i>Conventional Level</i>		
Stage 3: Interpersonal accord, conformity to group norms	Act to meet expectations of immediate peers.	Act to meet expectations of peer companies, industry or local business community norms.
Stage 4: Social accord and system maintenance	Act to meet societal expectations stated in law.	Act to comply with current laws and regulations.
<i>Post-Conventional Level</i>		
Stage 5: Social contract	Act to achieve social consensus and tolerance on conflicting issues.	Act to achieve social consensus on issues not fully addressed by legal standards.
Stage 6: Universal ethical principles	Act consistent with self-selected moral principles.	Act to identify, communicate, and apply universal moral principles in organizational decision-making.

Fig. 1. Individual and organizational stages of moral development.