The concept of economic responsibility in light of responsibility ethic

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Introduction

The concept of economic responsibility is linked with the idea that there is a (social) responsibility of firms (in addition to that of individuals) toward society. However, the meaning of the concept has not attracted much attention. In business ethics as well as in the Corporate Social Responsibility (CSR) discourses in the second half of the 20th century, "economic responsibility" has been equated with "being profitable" – in the following named "received view." This understanding of "economic responsibility" reflects the idea that firms should first of all make sure their continued existence. The paper argues for a definition of "economic responsibility" that goes beyond the established word use.

This paper first addresses the economic and social responsibility of a firm from a business ethics or CSR perspective. After that, it introduces the two main understandings of "responsibility" in the ethical theory of responsibility: the classical model and the modern model of responsibility (Bayertz 1995). From the perspective of the modern model, "economic responsibility" is insufficiently conceptualized. Based on the modern model both the limitations of the "received view" of economic responsibility and the basic structure of the more comprehensive approach can be outlined.

Responsibility and CSR

The interpretation of "economic responsibility" is coined by the development of the understanding of "social responsibility" in business ethics on the one hand, and the interpretation of the vocabulary in the conceptual frameworks of economic theories (in particular neo-classical micro-economics and welfare economics) on the other hand. With the development of CSR in North America and Europe beginning in the middle of the last century, questions began to arise addressing the role of businesses in society and "The Social Responsibilities of Business" (McMahon 2006, 348). An expression of the broad concern of this perspective is that the term "social," but not the term "economic" or "ethical," is represented prominently in the acronym "CSR" – an issue that has also become a source for the notorious vague meaning of "CSR" (for references see Schwartz/Saiia 2012). "Economic responsibility" was not a subject matter at the time (despite Clark 1916). This mirrors the view that, from the perspective of business people and management scholars, there is nothing particular to add to the common understanding of "economic responsibility" in terms of "being profitable:"

> "Historically, business organizations were created as economic entities designed to provide goods and services to societal members. The profit motive was established as the primary incentive for entrepreneurship. Before it was anything else, the business organization was the basic economic unit in our society. As such, its principal role was to produce goods and services that consumers needed and wanted and to make an acceptable profit in the process. At some point the idea of the profit motive got transformed into a notion of maximum profits, and this has been an enduring value ever since" (Caroll 1991, 40 f.).

In the decades after the “rise of social issues in business ethics 1962-1970” (McMahon 2006, 348) two things happened. First, the responsibility dimensions subsumed to “*social* responsibility” and their respective relationships were elaborated on to a greater extent (Caroll 1979). At this stage of discussion, the meanings of the responsibility dimensions and their interactions (as, e.g., the “trade off” between legal and economic responsibility) were still open to development. About a decade later, with the invention of the CSR pyramid (Caroll 1991), the semantic space had improved in structure but also in limitations. In the CSR pyramid, economic responsibility underlies all other responsibilities, i.e. it is assumed that it is the basic obligation of firms. This assumption was consistent with the prevalent business philosophies and not derived from theory.

Second, Friedman’s notorious newspaper article was published (Friedman 1970). This article did not add much to Friedman’s view published in 1962. However, an important change in the audience took place. Friedman (1962) was mainly adopted by economists. Compared with this, the newspaper article reached a bigger audience, and one probably less trained in economics. For this reason, the reception of this article was biased from the very beginning. The battlesome Chicago economist Friedman, the theoretical basis of his argumentation in neoclassical economics, and his personal convictions (as expressed in the New York Times Magazine article) all played (and still play) a part in the recognition of the article. There, Friedman denied the existence of an extra social responsibility of firms (note that he accepted that businesses have to act within the rule of law and ethical custom). According to him “The Social Responsibility of Business is to Increase its Profits” (Friedman 1970). This means that striving for profits is a responsible social activity. There might be other socially responsible activities. However, to conduct them is the task of other actors like the state but not of firms. Friedman’s rejection of a particular social responsibility of firms is grounded in, among others, liberalism and property rights theory (see Lodge 1982, 86). From the perspective of the shareholder approach and property rights theory, combined with individualism, only individuals (not firms) can be held responsible for their deeds. This is reflected by (the early American approach to business ethics between 1891 and 1963, cp. McMahon, 345 ff.). Managers are considered to be only responsible for the way and amount they fulfill their contractual and fiduciary obligations toward the shareholders. The idea that a firm’s management is obligated to do “good” with money that they don’t own runs contrary to this view.

Friedman’s position is theoretically well-derived and, within its framework, ethically reasonable. This judgment does of course not exclude the criticism of this perspective. In the newspaper article, Friedman provided rather superficial reference to the economic foundation of his argumentation. With respect to the ends which shareholders as economic actors might want to reach or strive for he referred to the standard approach in microeconomics (Bowles 2004, 93 ff.), *enhanced* by his personal view. The standard interpretation is grounded in the assumptions of economic models, namely that individuals strive for utility or firms strive for profit, respectively. In harmony with the widespread practice in economics not to empirically test the assumptions underlying individual behavior in the process of theory application, Friedman did not take into account that “real world” stakeholders might have evolved preferences different from those which underlie his argumentation or microeconomic models, respectively. Thus, he also did not address the consequences accruing from such non-standard preferences for the principal-agent relationship between shareholders and managers (Bowie/Werhane 2005, 31; Schwartz/Saiia 2012).

From today's perspective, and against the background of, for example, the stakeholder approach and the empirical research on economic action, the limitations of Friedman's approach have become visible. In particular, this view has nothing to offer that adds to the meaning of "economic responsibility" already included in the works by Adam Smith (Hillinger 2012, 3). The idea that there is an "invisible hand" because of which individuals can simply and *only* follow their self-interest, that is, contribute to the "common good" without explicitly aiming at this or reflecting on this, falls behind the concept of rational action in ethics (Nida-Rümelin 2005). The invisible hand includes only a "hidden" or "implicit economic responsibility" that is basically demanded from business and that Friedman has outlined in his narrow version of CSR (Schwartz/Saiia 2012).

Until today, possible interpretations of this "implicit" conceptualization of economic responsibility are affected by the reactions of the business ethics community to what, according to Friedman, *social* responsibility is or is not. The debate's focus on social responsibility moved *economic* responsibility out of view, and the critique of Friedman's position concerning social responsibility has not changed that. As a consequence, the basic idea that "economic responsibility" is tantamount to "being profitable" remained unchanged in business ethics. The development of an elaborated understanding of "economic responsibility" has got lost between the "implicit semantics of responsibility," as determined in economics, and the multiple and vague meanings of "responsibility," as unfolded in the CSR discourse. From the perspective of today, this discourse has led to two specifications of the concept of CSR: a narrow version that can be equated with Friedman's position and a broader view maintaining that there is, beyond economic responsibility, a social responsibility – meaning that firms should go "beyond profits" (Schwartz/Saila 2012).

The prominence of the concept of responsibility within the CSR discourse is indicative of its particular relevance for economics or business administration. However, by the equation of economic responsibility with "being profitable" one cannot grasp this relevance. If one does not equate "economic responsibility" and "profitability," then, at best, the profitability of a firm can be indicative of a responsible economic practice but it is neither necessary nor sufficient for it. That a firm is actually profitable does not mean that it has achieved that end *because of* responsible economic action: profitability can come out of short-term "milking a plant" (Jackall 2010, 96) or of course of economic irresponsible behavior. And vice versa: That a firm acts responsibly does not per se lead to (higher) profitability. Acting responsibly is not tantamount to being able to market a product or service that is valued by customers. In addition, there might be situations in which a firm decides to choose the more responsible alternative that, basically, not only in the short run, is less profitable.

In business administration, there is a discussion about what is called the "business case for CSR" (Baron 2001). The "business case" instrumentalizes CSR for the sake of profit maximization. According to the "business case," firms pursue CSR only for strategic reasons, not because of their motives or values. Ethically, this is less demanding than Friedman's narrow CSR concept. There, striving for profit is socially responsible. In the light of the "business case for CSR," social responsibility is only a means for making profits. Friedman's position is an ethical one, although a criticizable one. It remains within the narrow concept of rationality which prevails in most of today's economics.

It seems that a clearer specification and further development of the concept of economic responsibility has not been achieved within the CSR discourse yet. For this reason, it makes sense to look at ethics in order to find out if there is something that could be gained from responsibility theory.

The ethical theory of responsibility: Two models of responsibility

The concept of responsibility is a part of normative ethics. If one looks at the common foundations of economics and ethics, then the broad concept of rationality in ethics is connected with responsibility ethic, the branch of ethics that deals with responsibility. "Responsibility" is thus not simply a concept: it is a concept embedded into theoretical frameworks or approaches which have developed in the history of ethics. Bayertz (1995) names these theoretical frameworks "models," and he makes a distinction between a "classical model" and a "modern model" of responsibility. Each model is built on two pillars: description and valuation. With the first part, an ethic of responsibility is embedded into the social life world or objective theoretical knowledge. The second pillar constitutes the ethic of responsibility as part of ethics.

The classical model is built on two metaphysical assumptions: intentionality and causality (Bayertz 1995, 21). It assumes that actors – via their actions – are able to bring certain – intended – effects about, and because they can take into consideration the consequences of their actions they can be held responsible for them (imputation). In addition, the classical model assumes face-to-face relationships between actors. This model combines description *and* normative assessment. Based on it, actors can be held responsible for their deeds. It draws on a description of (parts of) social reality, selected for some interest, and it selects action consequences of interest (i.e., based on normative assessment). In this vein, the classical model focuses on descriptions of actions which have already taken place and whose consequences were negatively valued. Judgments of responsibility are a result of interpretation and construction. Two types of responsibility are ascribed to actors: primary responsibility which is included in the matter of fact that the actor finally did a deed (actors are responsible *because* they act); the secondary responsibility acknowledges that an actor might not be able to influence the ex post facto moral valuation of the consequences of his or her action (Nida-Rümelin 2005, 99). The meaning of the concept of responsibility is not independent from developments in the domains of ethics and economics or their intersections.

The development of the CSR concept went hand in hand with the erosion of the conditions of applicability of the classical model: a decrease in the relevance of face-to-face relationships in "modern" industrialized societies and, related with it, the problem concerning the ascription of action consequences to actors has gained importance. The range of application of the "classical model" has begun to erode insofar society and natural environment have evaded the idea of linear causality or controllability (Kersting 2003). A gap between action and expectable action consequences has arisen calling for a change of the model of responsibility. If one wants to maintain the concept of responsibility or to make it ready for the solution or avoidance of problems (related to the provision of public goods as addressed in terms of ethics, sustainability, or justice), then an adaptation of the model of responsibility is required. Although, for the individual decision and action, the distinction between primary and secondary responsibility is still important; the two basic components of the "classical" model of responsibility, description and normative assessment, are in need of adaptation.

Bayertz (1995, 43 ff.) lists the main characteristics of a "modern" model of responsibility: (1) responsibility has grown beyond face-to-face relationships and became an important factor in the provision of public goods; (2) the reversal of the direction of time; it is more important to avoid harm than to make someone responsible for it after its occurrence; (3) the responsibility for future generations or ecological responsibility includes the maintaining of actual states or the generation of future states; (4) the act of omission is equally as important as the conduct of an act; (5) in case of actions which are put into effect via organizational structures and technological systems, an increase of the relevance of objective knowledge concerning action consequences can be found.

The modern model provides very fruitful starting points for a conceptualization of economic responsibility; in particular, the future-oriented perspective in connection with the orientation at the maintaining of certain states, or the bringing about of wishful states, is relevant. A concept of *economic* responsibility has to recognize the objective knowledge having its source in economics of which actors can dispose of. At this point, it should be emphasized that, despite the neoclassical orthodoxy, economics is no monolytic block of thought but split in different strands and schools of thought. Economic theories specify very different types of problems and, based on these differences, distinct forms of economic responsibility might arise.

The "invisible hand" has not been proved wrong; in fact, the content of this metaphor adds to insights into the functioning of a particular type of macro systems. As a metaphor cannot be "true" or "false," it can however be argued that a metaphor is less useful for the understanding of "economic responsibility" one has in mind or wants to substantiate. For the solution of problems related to the responsibility of an actor for his or her deeds, this metaphor remains relevant insofar it can provide a starting point for extended perspectives.

Conclusions and Outlook

In the responsibility ethic, the modern model provides fruitful starting points for the development of the concept of economic responsibility. Based on our understanding of the concept, economic responsibility draws on the common action-theoretical foundations of economics and ethics. In particular, on a broad concept of rationality that includes but also extends efficiency, and elaborates on the states of affairs which ought to be brought about by economic actors, as well as on the economic and otherwise objective and subjective knowledge required for that. Broader conceptions of responsibility drawing on the modern model are a consequence of considering the change of social systems where, based on an increase of division of labor, a further increase of complexity in modern industrialized societies occurred. The development of a concept of economic responsibility will add to the generation of knowledge in fields at the intersection of economics and ethics including fields like institutional and organizational design, and contributions to the creation of public goods.

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