THE ETHICAL ANCHORING OF CORPORATE SOCIAL RESPONSIBILITY AND THE CRITIQUE OF CSR *

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In this essay two specific questions are dealt with: one, how robust are the critiques against corporate social responsibility (CSR) and, the other, which ethical anchoring is capable of offering more solid support for CSR? I will not deal with the history of CSR, a rather recent history all told that usually begins with the pioneering contribution of Bowen in 1953 which contains an early definition of CSR (Chirielieson, 2004); nor will I comment on the reasons for which, with the development of globalization beginning in the end of the 1970s, the problematic nature of CSR has exploded onto the scene (Zamagni, 2003). Nor will I confront, finally, the contents of corporate social responsibility, what is understood by CSR and the ways of implementing it at the level of firm praxis. (Sacconi, 2004)

I would like to observe that, notwithstanding the plethora of studies and debates that have taken place over the course of the last quarter century, there still exists no commonly accepted definition of CSR. We are still at the phase of the “privatization” of the definitions, which is at the origin of many interpretative problems and grave miscomprehensions that cause quite often bitter and useless polemics. The fact is that a definition makes sense only if it becomes the common property of a scientific community, since the nature of a definition in a particular field of knowledge is that of a public good. Indeed, the idea of a private definition is an oxymoron.

1. On the Robustness of the Critique of CSR

It should not be surprising if, among experts in the economic disciplines, but not only, the *fin de non recevoir* still dominates regarding the themes of CSR – it is a fact that the theoretical economic

* A somewhat different version of this essay was published, in Italian. (Zamagni, 2005)

literature, for example, is all but mute about the causal reasons and effects of CSR – and the critiques of the very idea of CSR are frequent, not to mention of its actual application. After more than a century of pronouncements on the thesis of axiological neutrality of economic science, i.e. of the affirmation according to which there exists a sphere of social relations – those that take place in the market – that don't need to be subjected to any external ethical judgment what I have just said comes to no surprise. Is it not perhaps true that economic behavior, that of the firm in particular, is in and of itself oriented toward the good, inasmuch as the firm produces value? It follows that economic behavior is different from every other type of human behavior because it eludes morality without, though, being contrary to it. As we will see later, it was the impressive development of the market economy itself and of its most important institution, the firm, that sent into crisis that consoling image that has allowed, for a long time, the economist to work "undisturbed" by concerns of an ethical nature. But it is a fact that such a realization has not yet become common within the profession notwithstanding the mass of events and facts that should indicate a change in course.

Before moving on to the examination of the criticisms of CSR and to their confutations it is, however, opportune, not to mention intellectually honest, to recognize the positive aspects, the elements of truth contained in those criticisms. I will indicate three. In a recent essay, Beltratti (2003) discusses the case of socially responsible investing – essentially, ethical finance – under the hypothesis that voluntarily renouncing to invest in certain stocks results in lower returns. The problem studied in the paper is that of deciding under which conditions such an investment is capable of changing the equilibrium of the system. The relevance of the problem is that rational agents will accept socially responsible behavior only if, operating this way, they believe they will be able to modify the final equilibrium of the system through the induced effects of their behavior on prices in the stock market and on the curve of equity yields. Let us not forget, in fact, that the familiar hypothesis of rational behavior implies that one aims to maximize the objective for which one acts, but not that that objective must necessarily be profit or one of its variants. Well, Beltratti demonstrates that there is a critical threshold for the level of socially responsible investments, below which the particular objective pursued is not reached. What is the meaning of this result? To suggest that, if the number of firms that accept to adhere to the CSR project does not reach the critical mass, the risk is of reinforcing what the skeptics say, according to which, at the end of the day, what wins in the market is the combination of acquisitive behavior and instrumental rationality on the part of economic agents.

A second element of truth that emerges from the criticisms of CSR is that CSR can sometimes serve as a screen that allows unscrupulous firms to eliminate their rivals or to reduce their competitive force. In brief, the argument is as follows. Let's assume that on the market there operate two types of firms, those opportunists and those intrinsically motivated by CSR. Let's assume in addition that the critical consumers, which are today increasing in number everywhere, are willing to reward the latter type of firm and sanction (through boycotts and condemnation campaigns) the former. In situations of this type, it is possible that opportunistic firms decide to behave initially in a manner that is even "more ethical" than the others with the aim of marginalizing them on the market so that they can then eventually return to their old behavior. Let me observe that such eventualities will be all the more probable the more public institutions - such as governments or public agencies – intervene in the process of CSR offering incentives and various forms of economic advantages to firms that agree to conform to the guidelines determined by the public institution. In this case, the heterogenesis of the ends would be assured: CSR would become an instrument for crowding out, i.e. for pushing aside the virtuous firms and increasing the monopolistic rent of the opportunistic firms.

Finally, the critics of CSR are right when they denounce the danger that socially responsible behaviors can conceal a dangerous trade-off, namely a trade-off between moral commitment and social commitment. As we know, the specific logic of CSR is to combine – in the sense of the *ars combinatoria* – the logic of pure business (which says that the only thing that counts for the firm is the economic result as measured by its profit) and the logic of pure philanthropy (which suggests the firm must commit a part of its profits to socially important uses). It is typical of CSR to reject the celebrated dichotomy of J.S. Mill between the laws of production of wealth and the laws of distribution of wealth. A firm is not socially responsible which, while it produces wealth ignores the defense of human rights, the respect for the moral integrity of people, etc. and then becomes compassionately generous in the moment of the distribution of the wealth produced. The noted historical cases of A. Carnegie and J.D. Rockefeller of the USA at the end of the 19th century are, along with many others, eloquent examples of what it means, in practice, to accept Mill's dichotomy. (Zunz, 2002). Well, the danger that I hinted at above is that with the social commitment, i.e. corporate philanthropy, falsely confused with CSR, cynical managers can cover-up the absence of moral scruples. And because the capacity for philanthropic donations is correlated to the size of the firm, it could happen that the large pressure groups are able, more easily than the smaller groups, to "buy" the good reputation that is considered necessary to them, except changing the strategy when the competitive scenario becomes particularly severe. One example will make the point clearer. In Enron's *2000 Report on Social Responsibility* one reads: "We want to work to promote reciprocal respect with the communities and stakeholders that are touched by our activities. We treat others as we would like to be treated." Everybody knows, to-day, how the celebrated "golden rule" has been applied by Enron!

Let me return to the main argument. What do we find deep down inside the mother of all criticisms of CSR? The vivid affirmation by Friedman (1962) that sees in CSR a grave threat to the capitalist system: "Few tendencies can threaten the foundations of our free society like the acceptance by top managers of a social responsibility that goes beyond making as much money as possible for their shareholders". (p.133). This thesis has been further advanced in a famous *New York Times* article of September 1970, with the evocative title "The only responsibility that corporations have is to increase profits," in which one reads: "the shortsighted vision is even exemplified in the speeches of businessmen on social responsibility… here, as happens with price and wage controls, businessmen seem to reveal a *suicidal impulse*. The real social responsibility of the firm is to obtain the highest profits – obviously in an open, correct and competitive market, producing wealth and work for all in the most efficient way possible.[1]" (Italics added).

More recently and moving in the same direction, Steinberg (2000), in an influential volume writes: "The aim of the firm is not to promote the public good… If the *nature* of the goods or services or the *mode* in which they are produced has priority over the long-term maximization of value for the shareholder, then the activity in question *is no longer a business activity*" (p.36; italics added) and a few pages later: "Just as you have prostitution when you have sex for money, instead of for love, a company prostitutes itself when it pursues love or social responsibility instead of money". (p.42).

We must admit that this thesis is not without a certain intellectual appeal. Though, as we will see, it is much less solid than it seems. The central point of the thesis is in the following line of reasoning. The market is the place in which the coordination of economic activity happens through voluntary cooperation. This is due to the fact that "both parties to an economic transaction benefit from it, provided the transaction is bilaterally voluntary and informed". (Friedman, 1962, p.13). It follows then that when two (or more) parties, in the absence of cheating and coercion, i.e. in the condition to choose freely, give life to an economic transaction, those parties also agree to the consequences that derive from that transaction. It can be noted that here lies the ethical justification, in economics, of consequentialism. The notion of consent founded on free choice is well expressed by Posner (1981) when he writes: "It is my contention that a person who buys a lottery ticket and then looses has 'consented' to the loss so long as there is no question of fraud or duress". (p.94; quoted in Peter, 2004). Therefore, outside of these cases, choosing means giving one's consent, and giving consent means to legitimize. As Peter argues (2004), the market does not therefore need to ask for certificates of legitimacy since the market is capable of self-legitimizing. This is not the

[1] The synthesis of Friedman's thinking on the theme discussed here can be found in Friedman (1993).

case, for example, with the State that – as Peter (2004) observes - needs the approval of the citizens via democratic elections in order to be able to use coercion, which is the way it achieves its objectives.

We are now at the point of arrival of the reasoning: because the firm is the most important institution of the market, the self-legitimacy of the latter is automatically extended to the self-legitimacy of the former. This is why the only social responsibility of the firm is to create wealth and increase profits, respecting the rules of the game. Also because - the critics of CSR add – due to objective cognitive limits, the firm is unable to gauge the real interests of its various classes of stakeholders. Citing A. Smith (incorrectly because out of context) who, in *The Wealth of Nations,* had written: “I have never seen that much good has been done by those who declare to do business for the public good” (Book IV, cap.2), these critics conclude that the only wise thing to do is to let each business – that knows best its own interests – to maximize profit. It will be up to the shareholders, to whom the profits go, to decide freely whether to destine part or all of them to socially useful ends. The more the firm remains a profit machine, the more the cause of the common good is served.

What doesn’t fit in this apparently persuasive argument? First of all, it is not always necessarily true that freedom of choice postulates consent. I agree with Peter (2004) that this would be the case if the choice were not constrained, as is typically the case in economics. The subject that voluntarily (i.e. with no coercion) offers his organs for sale to reduce his suffering due to poverty and hunger certainly would not consent to the consequences that would stem from this act. Free choice has a legitimizing force only if the set of the alternatives among which the agent has to choose is also under the agent’s control or, at least, is part of the agent’s choice problem. If the menu of choice is given – as it is the case in reality – that condition is certainly not satisfied. In other words, for the prospect of uncoerced choice to found consensus one requires that everyone agree to the constraints on which each person acts.

As it is well-known, the centrality of the category of consent is typical of the contractualist school of thought from Hobbes up until Rawls, included. The idea is that if I have signed a contract with you - let’s say a labor contract – to do something that I no longer want to do, you can always respond: “but then you were in agreement, now you are obligated”. That is to say consent is the foundation of obligation not simply a procedure to implement or regulate it. However, Rawls (1971) majestically argued that in order from consent obligation can be born it is necessary that constraints under which the parties to the social contract make their free choice should be accepted by both. In other words, that which is requested is a justification – legitimacy is not enough – for the constraints, a justification that is agreed upon by all who take part in the social contract. Only if we can show that the subjects have given their consent (or would have a reason for giving their consent) for a certain institutional set-up, then one can argue that the agreement is just and therefore obligatory. Now, it is not difficult to understand why this condition is never met in practice in our market economies. Indeed, the freedom of choice describes the absence of any coercion coming from others. It has to do with the *possibility* of choice, which says nothing about the *capability* of choice. This is the message stemming from the work of Sen (1988) when he reminds us that the *use* of freedom is in some way essential to its definition. In arguing that freedom consists in the ability to realize self-determined ends, Sen (1999) incorporates a substantive claim into his analysis of freedom: an agent's freedom is directly linked to what opportunity he/she has to realize his/her ends. It follows that the opportunity set an individual is presented with is as important to evaluating its freedom as it is its autonomy in decision making.

More can be said on the issue at stake. The syllogism on which Friedman's thesis rests – that the market is self-legitimizing; that the firm is the main pillar of market; *ergo*, the firm is also self-legitimizing –takes for granted something which is in reality not so, i.e. that the organizational principle of the market is the same as that for the firm. Which is not the case, because while the market postulates horizontal and symmetrical relationships among all that take part to it – if it was not like this, the contract could not be its principle instrument – the internal organization of the firm is founded, today as yesterday, on the principle of hierarchy, so much so that command is the firm's main instrument. This is a point that R. Coase had already clearly illustrated in his celebrated essay, *The Nature of the Firm,* in 1937 when he argued that the firm and the market are two alternative institutions, a point that has been recently reiterated by Zingales (1998): "Governance is synonymous with the exercise of authority, management and control. These words sound strange, however, when they are used in the context of a free market economy. Why do we need any form of authority? Is it not, by chance, true that the market is responsible for the efficient allocation of all the resources without the intervention of authority?" (p.497). I therefore conclude that the most insidious weapon that the critics of CSR have at their disposal is truly blunted.

Now I'll pass to the second aporia present in the reasoning that I am examining. Even if we leave aside the first aporia, the anti-CSR thesis would make sense, would even have a bit of weight, *if* the markets, both of inputs and outputs, were perfectly competitive; *if* income distribution were equitable, at least in the minimal sense of allowing everybody to participate in the market game; *if* the preferences of the economic agents went unchanged with respect to the carrying out of the economic activity. Well, the same economic text-books teach us that these are three very heavy conditions, none of which are ever satisfied in a real economy. In particular, it is well known that preferences do indeed change endogenously. Whenever this is the case, it might happen that the individual finds itself forced by rationality to follow a course of action which, by the agent's own standards, is inefficient, i.e. reduces its well-being. As shown by Yaari (1977), if in an exchange process an agent, even if it is endowed with perfect information and perfect foresight, is in a position where behaving inefficiently is the only rational thing to do, then the exchange process contains an ethical fault. Arrow's paper (1973) by providing a very effective account of the reasons, why the three conditions above are never met, contains (perhaps) the first economic justification for enterprise ethical codes. It would be proper, at this stage, to shed some light on the paradox that the anti-CSR line of thought brings us to.

An antique idea of economic science, one that has touched almost all schools of thought – but not, for example, the Austrian school – is that which sees the economy as a separate space, different from both the political space and the space of civil society. Where does this idea reveal itself? In the conviction on the basis of which the economic variables (prices, quantities, income, asset values, etc.) can fluctuate from one period to the other and can be impacted on by events in the fields of politics and social relations. But, in the long-run, such variables tend however to approach their standard of reference, determined by market fundamentals, as one would say in the current jargon. There are different theories that explain how these standards are determined, but the conviction is that prices and market magnitudes cannot go too far, or indefinitely, from their specific attractor, whatever it may be.

Clearly, only a conception of the economic system as a field of human interaction separate from the rest of society can give meaning to propositions of this kind. Because, in the same moment in which we speak of *market fundamentals* we affirm that the market possesses its own dynamic, not disturbed by the other social dynamics. In fact, if it were not like this, how could we speak of market "fundamentals?" Today we know that this is not the case, but this is not my point. Rather, my point regards the above mentioned paradox. The anti-CSR thesis presupposes, for its own validity, the existence of both perfectly competitive markets (first condition) and market fundamentals (third condition). But if this were the case, in a long-run competitive equilibrium, profits would be zero, as Leon Walras already demonstrated in 1874 with his theory of general economic equilibrium. That's like saying, that in order to be right, Friedman and the other scholars that see themselves in his position – the only social responsibility for a firm is to increase profits – must presuppose conditions under which firms don't attain any more profits!

Finally, I come to a third aporia inherent in the argument of the CSR critics. These authors all agree on one point: that the pursuit of profit by the firm must happen with full respect for the rules of the economic game, and in particular of the legal norms in vigor. If we think well enough about it, this is just circular reasoning. It is clear, in fact, that: *if* the rules of the economic game were complete; *if* the processes of law-making were able to follow, quickly enough, the evolution of the economic happenings in phases of accelerated social dynamics like the one we are living in; *if* all this were assured, then it would be true that it would make no sense to talk about CSR. But the necessity of CSR is born by the fact that these circumstances are never met, as everyone knows. It is exactly because the contracts are basically incomplete and because markets don't always exist that agency problems and problems stemming from abuse of authority on the part of those who possesses the residual rights of control emerge in reality. (Sacconi, 2003).

To put it another way, it is of course true that allowing the firm, which definitevely knows its own good better than anyone else, to pursue it freely and then leave it up to the market to direct individual interests toward the common good, would be an intelligent strategy. But this is true only if the economic game were played inside *civil* and *just* institutions, as the tradition of the civil economy, long before A. Smith, had understood and explained. (Bruni, Zamagni, 2004). It is when civil and just institutions don't yet exist, or they are incomplete and imperfect, that the pursuit of the common good requires something more and different from the mere pursuit of interest. In a well known passage, Smith writes of the "obvious and simple system of natural liberty "where each one" is left perfectly free to pursue his own interest in his own way", and to interact with others by bringing "both his industry and capital into competition with those of any other man". However, Smith puts a double constraint to his account. The first, which is most of the time overlooked, is the requirement that the individual is free to pursue his own interest "as long as he does not violate the laws of justice". The one constraint is a constraint of social benefit: although each one "intends only his own gain… he is… led by an invisible hand to promote an end which was no part of his intention… By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it". Thus Smith places the self-interest behaviour within the double constraints of justice and of social benefit. This is why truly socially responsible is the firm that cooperates to define a civil ethic that be able to favour the emergence of forms of organizational condensation from which civil and just institutions can emerge. Acting in respect of *given* rules is not enough, when those rules need to be changed.

2. The Ethical Anchoring of CSR

That the concept of responsibility finds, today, many difficulties in being accepted, let alone applied, is all told understandable. On one hand, globalization is increasing, in unprecedented ways, the distance between action and the ultimate consequences of the action. One thinks about the impact of processes of mergers and acquisitions on the phenomenon of “short-termism”: firms fearing take-overs tend to pay scarce attention to all that does not have a return in the short-run – including social responsibility. On the other hand, the new technologies that connote the third industrial revolution tend to reduce the sense of responsibility in so far as they tend to increase the number and typology of the unpredictable consequences of the actions. The notion of responsibility is strictly connected to that of accountability. Responsible is s/he who knows how to manage situations, adequately evaluating their risks and results. But the current technological changes render this exercise ever more difficult, if not impossible. As Baumann wrote (1992): “today, the organization in its own is a tool for canceling responsibility” (p.225). Therefore, it shouldn’t be surprising if there are still many doubts, first of all cultural, with regard to CSR on the part of both academics and business people.

In what follows, I will critically examine the four ethical theories that – often unknown even to many of their users – hold up the various positions on CSR present in the current debate.

2.1. Why should the firm ever act in a *socially* responsible way, if no canon of economic rationality exists that justifies that behavior? Is it not perhaps sufficient a personal ethics based on the principle of intentionality that reduces ethical questions to interpersonal relations? According to the ethics of intentions – upon which many critics of CSR base their arguments – an action is defined as good when it conforms to two rules: the proximate rule (conscience) and the remote rule (the law). The person who, harmonizing conscience and the law, behaves accordingly, commits a morally good act. It is the intentions, and not also the consequences, of action that must come under the definition of ethical behavior. That is like saying, the ends justify the consequences. This is where the famous expression, that sums this up nicely, comes from: *good business is good ethics*. The firm that turns a lot of profit is also highly responsible because, creating wealth, it allows well intentioned people to pursue their goals. There is no better illustration of this way of thinking than Andrew Carnegie, the great American philanthropic capitalist, whose methods of doing business were anything but civil. In his *The Gospel of Wealth* of 1889 one reads: “Wealth concentrated in the hands of one man alone is the result of the labor of an entire community and must go back to that community in one way or another. The rich person is the custodian of a fortune and that must be at the disposal of the common good and his career *must be divided into two parts*: acquisition and distribution”. (Quoted in Picard, 1999, p.26; italics added).

What is the principal limit of such an ethical theory? That it doesn’t give enough weight to the induced and indirect effects of individual actions. If my activity, though guided by good intentions, generates negative externalities that fall on other subjects, the act which was subjectively just becomes objectively, that is ideopraxically unjust. Deciding to entrust my savings to a financial institution so that it maximizes my rate of return is a just act according to the criteria of the proximate and remote rule. But if that institution invests my savings in any one of the many illicit ways, the act in question is objectively censurable. This means that the anticipation of the effects of an action is an integral part of ethical behavior. More in general, the fact that the firm operates today in a system in which it is the globalized market that constrains, more than ever before, the economic agents is not a sufficient reason for freeing them from their social obligations. Also because one can't want that the market is, at the same time, the place of maximum entrepreneurial freedom and such a constraining place that it renders firms socially irresponsible. Thinking in this way would bring us to a pragmatic contradiction.

2.2. An ethical theory that seeks to remediate some of the deficiencies just highlighted is that of *enlightened self-interest*. Because of the tight interconnection between external environment and the firm, if it wants to compete successfully in the long-term in the market, can't not take into consideration the needs of the context in which it operates, and in particular those of its stakeholders. Just as that version of utilitarianism known as social utilitarianism suggests, *good ethics is good business*. This is like saying ethics pays in one way or another. Cochran (1964) wrote to explain the difficulties of development in the western United States in the second half of the 19th century: "the low level of business ethics among many American entrepreneurs was a grave impediment both to economic efficiency and raising capital" (p.96). The famous economic historian Rostow (1961) pushes himself so far as to claim that the root cause of the Great Depression was a lack of ethical behavior on behalf of the economic leadership.

The ethical theory in question represents certainly a step forward but too short of a step to be interesting. Reducing social responsibility to just another constraint to the strategic management of the firm, the enlightened self-interest approach inverts the natural order of things. Instead of being a presupposition or a guideline for economic action, ethics becomes in fact a consequence of economic success. Let's try to explain. According to this theory, ethical behavior is visualized as a superior good in the sense that the demand for such a good grows at a larger rate than income and vice-versa. (The demand income elasticity is larger than one). The more people become rich, the more the need, or the demand, for ethical behavior grows, and vice-versa. Consider now the case of a firm that competes on the global markets and that intends to put CSR procedures into practice. If its rivals, through illicit behavior (for example the use of child labor) are able to lower production costs and therefore the selling price, there will be a reduction in income for the firm in question.

The latter will then lower the demand for ethical behavior until this is brought in line with average behavior. In situation of this type the strategy that Shleifer (2004) suggests adopting is to accelerate, as quickly as possible, the process of income growth, through an intensification of the levels of competition and without too many moral scruples (better to use child labor, for example, than to see people die of hunger). The increase in the disposition to "pay" for higher ethical levels would come as a consequence.

But if ethics is simply a byproduct of economic growth – Marx would have said a superstructure of the economic structure – what sense would there be in talking about CSR? And why speak ever of ethical behavior as an ulterior constraint under which to maximize long-run profits if ethics is a consequence of economic results? As it can be understood, the above line of reasoning is opposite to the great Socratic message according to which virtue is not born out of riches; on the contrary from virtue itself derive all the riches and all the other good things to men.

2.3. The moral theory, currently more in vogue in studies of CSR, is the ethics of responsibility as interpreted by the well-known stakeholder model. We can consider Max Weber the father of such a theory who, in his celebrated essay, *Politics as a Profession*, indicates the ethics that must characterize "he who wants to place his hands on the gears of history" (1969, p.101). Adding, a few pages later, that responsibility is the "willingness to respond to the *foreseeable* consequences of one's actions" (p.109). To the Weberian formulation of the ethics of responsibility Jonas (1990) has added an important qualification. Basing his idea on a "heuristic of fear," Jonas does not consider it sufficient to stop only at the foreseeable consequences; one must go further and take into account the *possible* consequences of its actions. The appropriate imperative for the new type of human action is, for Jonas: "to act in such a way that the effects of your action are compatible with the continuation of an authentically human life." From the Kantian imperative "you can, because you must" we pass to "you must, because you can."

It is not difficult to understand the meaning of Jonas' qualification. Limiting oneself only to the control of the foreseeable effects of one's actions is too little in economic contexts in which the *proprium* of the entrepreneurial function is to continuously generate unforeseeable effects. On the other hand, is it not perhaps in this – as Schumpeter had acutely anticipated – the basic difference between entrepreneur and *rentier* or bureaucrat? Think, in addition, about the possibility, which is enormously greater today with respect to the past, of so-called "rational errors" made by the firm. As experience suggests, the cost of such errors too often exceeds the monetary value of the capital conferred by shareholders. In cases like this, the calculation of the foreseeable consequences does not constitute a solid anchoring for the notion of responsibility. (Think about the corporate scandals of Enron and Parmalat, among the many others).

Well, it is on such a foundation that stakeholder theory affirmed itself, beginning in the 1960s. In the words of its most representative exponents, Evan and Freeman (1988): “We believe that the legal, economic and moral challenges to the current theory of the firm require a revision in an essentially Kantian perspective. This means that each group of stakeholders has the right not to be treated as a means oriented toward some end, but must participate in the determination of the future direction of the firm.” (p.101). It follows that the objective of the firm is not the maximization, under constraints, of profit, as is the case in the shareholder theory. The latter defends the position according to which the shareholders, being ultimately responsible for the destiny of the firm, have the right to a special and different consideration with respect to other classes of stakeholders. Rather, “the authentic objective of the firm… is that of operating as a vehicle for *coordinating* the interests of the stakeholders.” (Ib., p.104, italics added).

The primary task of management is therefore to operate for the realization of a balancing of different interests: “Management is the bearer of a financial relationship that links it closely to the stakeholders as much as to the firm as an abstract entity. Management is asked to act in the interest of the stakeholders as if it was an agent of theirs and must act in the interest of the business to guarantee its survival, safeguarding in the long-term the shares of each group.” (Ib., p.104). Finally, in a very recent essay, Freeman (2004) after having re-affirmed that “the firm is a *nexus of relationships* among groups that have an interest in its activities” adds: “The firm has to do with the world in which clients, families, employees, investors (shareholders, bondholders, banks), local community and managers interact and create value. To understand the firm one must understand how these relationships function.” (p.1). From this follows the conclusion that the central objective of stakeholder theory is that of studying how to make the interests of the various stakeholders move in the same direction. “The creation of value and not the conflict of value is the metaphor of reference”. (p.1)

But how to achieve the compatibilization of the interests of all those who, inasmuch as they are bearers of specific investments (finance capital; human capital; trust; social capital; etc.) cooperate within the firm for the creation of value? In other words, how to respond to the objections of many, and in particular of M. Jensen and K. Goodposter,[2] according to whom a multi-stakeholder model of governance would leave the managers confused, without the so-called bottom line which can be utilized to evaluate their performance?

[2] The “paradox of the stakeholder” of Goodpaster goes like this: on the one hand, the manager is paid by the shareholders so that he looks out for their best interests (that is to maximize profit); on the other hand, the manager must act so as to balance the interests of all. (Goodpaster, 1998).

As Sacconi (2004) indicates, the response is the social contract among all the stakeholders as a *normative* device for defining the contents of CSR. The Rawlsian contractualist version of stakeholder theory, as opposed to the original Kantian version, is capable of supplying a criterion for judgment, not only of the legitimacy of the firm as an institution, but also of its strategic management. Asking the interested subjects if they would give their consent to being part of a firm in a state of nature in which they were guided only by enlightened self-interest – and not also by conventions and traditions – Rawlsian contractualism allows for the identification of a bargaining equilibrium. The fundamental property of such an equilibrium is that each stakeholder would accept it in order to cooperate voluntarily, given that it would be the expression of an impartial procedure in which the moral equality of all the participants would be assured. The normative force of contractualism is, therefore, in linking justice (or equity) to consensus without renouncing the rational calculus. In formal terms, instead of maximizing the profit function, the firm maximizes the function that represents the solution to the negotiation game among all the stakeholders. Sacconi (2003) demonstrates how, under reasonable conditions, such a solution exists, in general.

Everything's okay, then, regarding the possibility of using CSR as a model of enlarged governance of the firm? Not quite, because once the fiduciary obligations of the firm regarding its stakeholders are identified, there still remains the problem of their practical application. What is to guarantee, in fact, that the obligations decided upon in the social contract will be effectively met? Let's assume, that, following the deliberative process that brought the stakeholders to agree to the social contract, the firm decides to give itself an ethical code, or something similar. What is to assure that the self-imposition of some canon of behavior fixed in the ethical code is, in reality, respected? The answer the literature is able to give is based on the mechanism of reputation: the firm that self-inflicts the sanctions called for by the ethical code following defective behavior will see its reputational capital grow in the eyes of all of its stakeholders and this will improve its economic performance, for obvious reasons.

As Sacconi has observed (2004), things would happen this way if it weren't for the fact that the reputational mechanism suffers from grave cognitive fragility. It would require that the awareness of the stakeholders, and in particular of the consumers and civil society, were perfect, in order that they would be able to decide if that which was supposed to have been done, was done. On the other hand, one can't forget that the ethical horizon of contractualism is always that of axiological individualism; according to which the normative foundation is the impartial agreement of rational individuals. In other words, in the contractualist view, rational individuals realize that it is in their interest – whatever that may be – to agree on common norms of behavior to avoid phenomena such as free-riding, shirking, the many difficulties of coordination. This is tantamount to say that the ethical code is visualized as a *rational constraint* that the firm imposes on itself. It is nonetheless always a constraint. And therefore if, given the contextual conditions, there is a chance of transgressing the norms without penalty, i.e. without tarnishing the firm's reputation, this will occur.

2.4 It is at this point that the fourth ethical theory to which I referred at the beginning of the section comes into play. This is the ethic of virtues, as Adam Smith, on the heals of the line of thought inaugurated by the civil humanists in the 15th century, elaborated in his fundamental work *The Theory Moral Sentiments (1759).* The institutional structure of society – says Smith – must favor the dissemination among citizens of the civic virtues. If economic agents don't already embody in their structure of preferences those values that they are supposed to respect, there isn't much to be done. For the ethic of virtues, in fact, the enforceability of the norms depends, in the first place, on the moral constitution of individuals; that is of their internal motivational structure, much before any system of exogenous enforcement. It is because there are stakeholders that have ethical preferences – that attribute, that is, value to the fact that the firm practices equity and works for the dignity of people *independently* of the material advantage that can be derived – that the ethical code could be respected *also* in the absence of the mechanism of reputation. And that there are subjects endowed with ethical preferences is, today, a fact documented by a dispassionate observation of reality, other than by experimental research.[3]

Consider, to give just one example, the relationship between a company and its employees. As is well known, this relationship can assume the forms of the "social exchange" or "market exchange." In the former case, immaterial elements like loyalty, honesty, attachment to the mission enter into play. These elements cannot be negotiated, since they are non-verifiable. In the latter case, everything passes through the definition of "optimal" incentive schemes. Now, there is nobody who does not realize that there is a great difference, as far as the company performance is concerned, between the two types of relationship. But it is evident that the worker will accept to enter into a "social exchange," instead of a "market exchange" only if the firm will appear to him (her) to be a moral subject that believes in and puts into practice the principle of reciprocity.

The point worth highlighting in particular is that the key to the ethic of virtues is in its capacity to resolve the opposition between self-interest and interest for others, between egoism and altruism, by moving beyond it. It is this opposition, child of the individualistic tradition of thought, that prevents us from grasping that which constitutes our own wellbeing. The virtuous life is the

[3] For a review see Fehr e Fischbacher (2002) and the essays in Sacco e Zamagni (2002).

best not only for others – like the various economic theories of altruism would have it – but also for us. This is the real significance of the notion of common good, which can never be reduced to a mere sum-total of individual wellbeings. Instead, the common good is the good of being in common. That is, the good of being inserted into a structure of common action, which is exactly what the firm represents.

Viola (2004) suggests that common is the action that, in order to be carried out, requires both the *intentional* coming together of many subjects (and of which all the participants are aware) and of inter-subjective relationships that lead to a certain unification of efforts. More precisely, three are the elements that distinguish a common action. The first is that it cannot be concluded without all those who take part being conscious of what they are doing. The mere coming together or meeting of many individuals is not enough. The second element is that each participant in the common action must retain title, and therefore responsibility, for that which he does. It is exactly this element that differentiates common action from collective action. In the latter, in fact, the individual's identity disappears and with him disappears also personal responsibility for that which he does. The third element is the unification of the efforts on the part of the participants in the common action for the achievement of the same objective. The interaction among many subjects in a given context is not yet common activity if they follow diverse or conflicting objectives. Therefore, the firm, in as much as it possesses all three of these elements, is a common action.

Diverse are the types of common action in relation to the object of commonness. The commonness, in fact, can realize itself around the means or around the ends of the action itself. When the commonness is extended to the end of the action – as happens in the firm – the final result of the action has the nature of a true joint product. This means that it is *de facto* impossible to determine the specific contribution of each stakeholder. This was attempted more than a century ago by the neoclassical theory of distribution of income with the principle of marginal productivity of factors; but with rather scarce success as we know, nowadays. (Screpanti, Zamagni, 2005). Note that, while in the contract – which is another example of common action – the commonness is limited to the means (each party accepts that the other will pursue his/her own ends, even if the ends are not the same), in the firm the end is realized through common action. This is why in the firm cooperation – and not coordination – is the principal form that inter-subjectivity assumes. The contracts have to be coordinated, but the stakeholders in a firm must cooperate if they want to achieve an optimal result. The question then arises: how is one to positively resolve a problem of cooperation? Bratman (1999) gives a convincing response, when he outlines the following three conditions. In the first place, each participant in the common action assumes that the intentions of others are relevant, and therefore worthy of respect, and knows that this is reciprocal. This is the condition of “mutual responsiveness”. It is not enough that the members intend to do the same activity; they must want to do it together. In the second place, each person commits to a joint activity—even if for different reasons—and knows that the others also intend to do the same. This means “commitment to the joint activity”, in which it is *de facto* impossible to quantify the specific contribution of each person to the joint product. Finally, each person commits to helping others in their efforts so that the final result will be the best possible “(commitment to mutual support)”. Reciprocal aid must manifest itself while the joint activity is being carried out, not *a latere*, nor at the end of the activity. Such a commitment should not be confused with self-interest, nor with disinterested altruism. There being a connection of interests, by providing help to others one pursues one’s own interests.

Now we can appreciate the specific value that the ethic of virtues offers us, that is to liberate us from the obsessive Platonic idea of good, an idea that says there is an *a priori* good from which an ethic is extracted to be used as a guide to our actions. Aristotle – the initiator of the ethic of virtues – in total disagreement with Plato, indicates for us instead that the good is something that happens, that is realized through activities. As Lutz (2003) puts it, the most serious problem with the various theories of business ethics stemming from the individualistic tradition of thought is that they are not capable of offering a reason for “being ethical.” If it’s not good for us to behave ethically, why do what is recommended by ethics? On the other hand, if it is good for us to “be ethical,” then why would it be necessary to offer managers incentives for doing that which is in their own interest to do? The solution to the problem of moral motivation of managers is not that of setting constraints (or providing incentives)[4] for acting against their self-interest, but to offer them a more complete understanding of their own wellbeing. Only when ethics becomes part of the objective-function of the agents does moral motivation cease to be a problem, because we are authentically motivated to do that which we believe is best for ourselves.

This is why cultivating civic virtues is the undeniable task not only from the point of view of citizenship – something known for a long time – but also from the point of view of CSR. Since institutions, contrary to what the theorists of market fundamentals think, influence economic performance also in the long-term, the task is to intervene in the institutional set-up of society in order to encourage – and not penalize, as happens stupidly today – the largest possible dissemination of civic virtues through education and actual deeds. The results will then follow, notwithstanding what the skeptic thinks. For the skeptic the managers, under pressure from the movement of ideas that have come about around CSR, will attempt to imitate or mimic behavior inspired by the ethic of virtues, though continuing to not really believe. This way – the skeptic

[4] One observes that an incentive, like a constraint, is always the expression of a relationship of power. That which changes is only the form with which the power is expressed.

reasons – market competition will select, according to the circumstances those corporate cultures which are founded on those values that will demonstrate to be most profitable. Today we know, both theoretically and empirically, that things do not proceed this way. The “cynical” manager who, without believing it, behaves like a “virtuous” manager, sooner or later will begin to perceive himself/herself as *homo reciprocans* – just as the theory of self-attribution teaches (Schlicht, 2002) –stopping from behaving in a merely opportunistic way. Therefore, if the market is capable of “recompensating” in a coherent way what I call the civil culture of the firm, in the long run both the dispositional and the motivational structure of the economic agents – managers included – will adapt as a consequence. This is not an insignificant advantage of the approach, of moral evolution according to which the affirmation of the values of CSR ultimately depend on the process through which these values are edified as virtues.

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