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## **SOCIAL RESPONSIBILITY AND THE CONTRIBUTION OF CORPORATIONS**

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Responsibility is one of the key-words in the field of applied ethics. Especially in the context of business ethics responsibility can be focused as one of the core elements describing the relation between corporations and their stakeholders. If corporations are able to influence the interests of different formal and informal groups, e.g. stockholder, employees, customers or environmental groups, than – so the argument – they should be looked at as responsible for their decisions too. According to the idea of stakeholders, management corporations should balance the diverse interests of different stakeholders to avoid a misfit between them. The advantage the corporation takes of this management strategy is to minimize the risk of resistance to its corporate policy. But from a moral point of view, corporations – as “moral actors” – should do this also because of their social obligation. They have to explain their policy to act in accordance with the targets of society.

### **INTRODUCTION**

For explaining social corporate responsibility it is helpful to divide the problem into three separate questions:

The first question is: What does responsibility mean in general? The word responsibility has derived from Latin word „respondere“ and means „to answer“. So in this original meaning „to be responsible“ is to answer about the motives and reasons that drove someone to act in a specific way. But it is evident that a useful explanation of „responsibility“ has to be quite different and more difficult than can be described by such a simple definition.

Having defined „responsibility“ we should ask a second question: Can corporations be looked at as subjects of responsibility at all? In general, our common conception of responsibility suggests that only individuals can take responsibility. A specific form of decision-making in organizations and a typical organizational behaviour seems to forbid looking at corporations as subjects of responsibility. But nevertheless corporations decide according to corporate values independent from individual choices of their members. So we should argue for a special responsibility of organizations.

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If corporations can be responsible and if we know under which conditions, then we can ask our third question: What does social responsibility of corporations mean in a concrete manner? Here the main focus of discussion will be straightened to find a regulative idea of social corporate responsibility. As far as possible this idea will be oriented at a stakeholder model to outline the moderating role of corporations in the context of moral discourses on corporate activities. But of course, we only can show the theoretical frame under which corporations responsibility can be taken.

## 1. WHAT DOES RESPONSIBILITY MEAN?

In principle the concept „responsibility“ is a three-dimensional relation between a subject of responsibility (i.e. who is responsible), an object of responsibility (i.e. for what he is responsible) and an authority of responsibility (i.e. to whom he is responsible) (Zimmerli 1987, p. 102 ff.).

Let us focus on these three dimensions: as a matter of principle the subject of responsibility can be an individual, a group of individuals or an institution. In classical ethics the subject of responsibility equals the person that acts. The idea is, that an individual realizes his decisions without any friction and intended only by his own free will. But this model of individual, directly responsible active agents does not fit with contemporary models of organizational decision-making. The process of decision-making in corporations is influenced by the will of different persons and groups. All the people that are involved in this decision-making process have different interests and different targets. So at last, the decision is not an expression of a homogeneous intention, on the contrary, it is a patchwork of different opinions and persuasions. So the idea of an identity of intention, decision, and realization is no longer representative of the way organizational subjects of responsibility will act. If organizational behaviour is a compromise of different interests led by different targets and values, we have to find new models of responsibility to handle the relation between intention and the realization. A second problem increases this necessity: in the complex organization of corporations we can see a difference between those people making decisions and those people realizing these decisions. In a multinational corporation a decision at the headquarters, maybe in Paris, is executed in a plant, maybe in Buenos Aires. So there is also a difference between the subject making this decision and the executing subject realizing this decision (Zimmerli et al. 1995, p. 42 f.). In this case we have to ask for an accountable responsibility at all. The German sociologist Ulrich Beck calls a situation like this a matter of

„organized irresponsibility“ (Beck 1988, p. 103 ff.). In such a situation the models of classical ethics defining a person as a decision-maker who realizes his own intentions and acts according to them cannot be used further more to describe responsibility.

Similar problems arise when investigating the object of responsibility. What we are responsible for includes our activities and their intended and unintended consequences as well as the effects of accumulation. In a wide range „to act“ means an intentional transformation of a starting situation into a final situation and this includes also pure acts of conversation and omissions. In traditional ethics the consequences of behaviour are seen as a result of personal activities. Their consequences could be seen immediately. But in our technological society this fact has changed. The consequences of deforestation or of nuclear refuse do not appear within one generation. So in general, it becomes difficult to relate these effects to a subject of responsibility. A second problem arises by using electronic data-processing. Electronic data-processing systems are more and more used not only to support decision-making but also to control technical processes. As a result, we little by little lose control of technical systems we believed to keep under supervision. We cannot verify data as fast as the system reacts. This causes that we – willing or not – have to believe the results of this process. The increasing amount of data is faced by an inability to digest data by individuals. The philosopher Walther Ch. Zimmerli calls this phenomenon an „information-technological paradox“ (Zimmerli 1987, p. 104). For example: The collapse of the stock-market in Frankfurt in 1987 was triggered off by electronic data-processing systems. These systems had limits to buy or to sell shares. When the value of a share declined under a defined mark the system began independently to sell this share. So the current worsening of the share values in September 1987 led to a situation where the systems started to sell shares and so accelerated this process of decline in prices. Step by step, the decline broke all selling limits and the crash could not be stopped. In a case like this, the problem of responsibility cannot be reduced to individual behaviour or to activities in the classical definition at all. In general, it makes sense to define limits for buying or selling in stock-markets. But in this special case a simple definition leads to disaster. In a situation like this, it seems nearly impossible to relate responsibility to a particular person. Nobody could imagine this special situation and nobody could control this process. The American philosopher Hans Jonas comes to the point when he says that the power of technological knowledge does not fit with our possibility of anticipation (Jonas 1979, p. 28).

The last dimension of responsibility we have to discuss is the authority of responsibility. Authority of responsibility means such authority where persons or organizations should be responsible for their activities. In general, this could be a formal institution (like a court, a professional organization, or an arbitral authority) or an informal institution (like the general public, the opinion of colleagues, one's conscience, or in our times also future generations). The responsibility for future generations had especially become a focus in philosophical discussion. The critique in established ethics was that the consequences of our technological wrong-doing from today will come upon our children and grand-children. So the reach of technological activities has grown to a dimension that itself has become an ethical question. And conversely the interests of future generations should be a dimension of responsibility in our behaviour of today, especially in the context of new technologies. The main question in this case is, what future generations will expect? The German philosopher Dieter Birnbacher shows four items where difficulties will rise to anticipate the interests of future generations (Birnbacher 1988, p. 29): The first item he calls a „pure preference of time“, which means that in a person's imagination, future benefit or loss is less important than current benefit or loss. So in the process of decision-making we see a tendency to ignore the future consequences of our actual behavior. The second problem Birnbacher mentions is a „preference of actual preferences“. This points out the empirical fact that we estimate future preferences which differ from our preferences of today less than our actual preferences. But if we do not share the values of future generations, we cannot include their interests in our decisions. The third point is that an „ego-preference“ leads into a situation where we estimate the consequences of activities concerning our own person as more important than the consequences concerning other persons. So every process of decision-making is influenced by egoistic imaginations, regardless whether we want it or not. Finally, a „moral distancy“ to persons that are emotionally not closely related to us means that the consequences of behaviour concerning this group of persons does not affect us at all. Only those effects concerning our next neighbours will be important in our decision-making process.

So these four items can show the difficulties to emphasize the role of future generations as an authority of responsibility in our decision-making process. We have not only the problem that our technological and economic decisions of today will cause effects – and we even don't know what kind of effects that will be – coming upon future generations. We have also the problem that we have typical preferences that prevent us from an identification with future generations at all. Nevertheless, the problem still exists: our technological

capacities have changed and will change the world and conditions of future life and it is a moral question what we want to allow and what not.

Additionally, we have to describe the idea of responsibility in a second way. We have to make a distinction between two different perspectives of responsibility. The first perspective we have already analyzed: We are responsible for what we have done. We call this perspective the „retrospective dimension“ of responsibility. This means that individuals have to take responsibility for the results of individual wrong-doing.

But in contrast, responsibility also means „to feel responsible for something“. We call this dimension the „prospective dimension“ of responsibility. This means the anticipation of future effects of behaviour and causes a feeling of care. In this sense we call the physician responsible for the health and the welfare of his patients as well as the lawyer responsible for the interests of his client. The prospective dimension of responsibility demands for the possibility of moral sentiments. It was Adam Smith who pointed out exactly this dimension of responsibility: „In all such cases, that there may be some correspondence of sentiments between the spectator and the person principally concerned, the spectator must, first of all, endeavour, as much as he can, to put himself in the situation of the other, and to bring home to himself every little circumstance of distress which can possibly occur to the sufferer“ (Smith 1984, p. 21). So we understand that responsibility in this second way is based on the individual possibility of moral sentiments. Every complete concept of responsibility must be defined as this kind of „conceiving what we ourselves should feel in the like situation“ (Smith 1984, p. 9) as well.

But this dimension of responsibility causes new types of problems. If we look again at the retrospective aspect of responsibility, we can say that a person is responsible for his individual wrong-doing as well as corporations are. But if we focus on the prospective aspect explaining a persons responsibility, we will get problems to see a corporation in a similar way.

## **2. CAN CORPORATIONS BE RESPONSIBLE?**

If we use the concept of responsibility in the context of corporations we normally point out that a corporation causes negative effects by its activities. For example „Union Carbide“ by omitting the inspection of their safety devices caused the catastrophe at Bhopal, where more than 500 000 people were killed. But this describes the problem only in forms of legal responsibility. John Ladd, professor of philosophy at Brown-University at Providence, draws the conclusion that moral responsibility never could be a question of juridical responsibility. There is a difference whether a corporation

should pay for the consequences of an accident or whether a corporation caused an accident by extreme carelessness. The moral duty to prevent accidents like this cannot be expressed in forms of legal competence (Ladd 1992, p. 285 – 300).

Indeed, we are faced here again with the difference between retrospective and prospective responsibility. It is obvious that our definition of responsibility does not fit with the reality of economic organizations. In consequence, some philosophers consider corporations not to be a subject of moral responsibility, because only natural persons are able to feel responsible. But as we have analyzed in the context of our definition of responsibility, most decisions in corporations are the result of group processes where everybody decides in a way he never would have done as an individual. Reducing the subject of responsibility to natural persons in that simple way seems to neglect the main point of discussion.

Actually, there are at least two groups of ethical conceptions in the philosophical discussion trying to solve this problem.

The first group continues to view individuals as the main subject of responsibility. But, differing from the classical ethic conceptions, they try to enlarge the object of responsibility. So individuals also have to feel responsible for decisions they have only supported indirectly. Individuals as participants in the decision process should take prospective responsibility also in cases when the results of this process are not immediately the results of their own will. To reach that, it will be necessary to brace the moral competence of individual actors (Zimmerli et al. 1996, p. 336). The first step to improve this moral competence should be to make people more sensitive to the moral qualities of their decisions. If they know about their common responsibility, everyone will handle his own intentions with care and check his opinions whether they are morally adequate. Also the result of the discussion itself could be verified in accordance to ethical standards. A second step should be to establish moral standards that can lead through a decision process. So for example most American corporations use a code of ethics that points out not only their core values and beliefs but also ethical standards concrete decisions should satisfy. So step by step a system of ethical conduct can be established and consequently a climate for moral behavior should grow.

But this emphasizing of moral values, especially in American corporations, is not at last a reaction to the so called „U.S. sentencing commission guidelines“. These guidelines allow reducing the degree of punishment for illegal practices when ethic programs have been established. So most instruments of business ethics as they are established in U.S. firms, like ethic codes, ethic audits, ethic officers and so on, are on no account an expression of

a better understanding of the moral dimensions in economics. They are a simple reaction to a reform of U.S. criminal law. The intensification of the degree of punishment on the one side and the expectation of mitigation of punishment in case of ethic programs on the other, have led to a revival of ethic questions, especially in economics. But nevertheless, this means that in the light of the American law, corporations are looked at as subjects of responsibility anyway. And this view is the result of the second group of ethical conceptions in the philosophical discussion.

This second group of ethical conceptions sets the corporation itself as the subject of responsibility. The main problem in this case is, whether corporations can take prospective responsibility or not. Two arguments for this possibility are discussed. The American philosopher Peter A. French argues that the main point – to decide whether corporations can take prospective responsibility – depends on the question of the intentions a corporation can have. If we can account corporate behaviour as intentional, if we see that corporations enforce their own values, and if corporate decisions are guided by such values, then we must say that a corporation has to take prospective responsibility because of its intentions (French 1992, p. 317 – 328).

The example French gives is a discussion whether a corporation should join a trust to close the market or not. In this example the chairman of the board asks the other board members for expert advice on this topic. The board members argue in their papers that in any case they could not agree with these plans as private persons. This step would be a contradiction to their conviction of the idea of a free market economy. So as individuals, they must reject the suggestion that the corporation should become a member of the trust. But as members of the board they have to consider the economic situation of the corporation, too. So they must also look at the economic benefits the trust membership would open. Because they know about the economic problems of their firm they must advocate this step as an acceptable solution of these problems. So in their role as members of the board – and only in this function they were asked – they must recommend this as the best solution to solve the economic problems of the corporation.

In this discussion two different arguments appear, depending on the role the managers play. As private persons they reject the idea of entering a trust. In their role as managers, they support these plans. What we see is a difference between private and professional values. The main point is that the individual managers did not agree with these plans as private persons; they did agree because of their belief that this would be best for their company. So they were anticipating not their own values in this decision but the possible values the corporation should have. The conclusion is that the corporation decided, even

if individuals took the role of the decision makers. In many cases managers give recommendations and act in a way according to values the managers believe the corporation should have. The result of the decision process is not the result of the different beliefs the managers have, it is the result of different beliefs in values the corporation should follow. So we must say that corporations have their own intentions. If this is possible, so French argues further, then in these intentions could also appear an idea of prospective responsibility: If someone can have the intention to make as much money as possible, nobody would hinder him also to have an intention to support other persons or to protect them from harm. In this way corporations can also take prospective responsibility and can be looked at as full subjects of responsibility.

The second argument in this context is brought into discussion by Patricia Werhane. She argues that if corporations demand for liberty rights and autonomy, then they do this also as a moral claim. But if corporations have moral rights, they also have moral duties connected with these rights. They should be held morally responsible for their activities. This includes that corporations are responsible through their role as productive organizations as well as through their role in the society. So Patricia Werhane concludes that corporations should be looked at as „secondary moral actors“ (Werhane 1992, p. 329 – 336).

What does that mean? Corporations cannot act themselves. They depend in their activities on the decisions of natural persons who in this context must be looked at as real and in this sense as „primary moral actors“. Consequently, corporations can only act indirectly. So if we want to analyze the rights and duties of corporations, we have to ask what kind of rights and duties a corporation can have at all? The rights the corporation requires must be also accepted against itself. In this sense the right of free speech has to be accepted by the corporation also as a right of its employees or a right of its customers as it is demanded from the corporation itself. At least the corporation cannot demand more freedom for its own activities as it will accept for the activities of other persons.

So if we look at corporations as subjects of secondary moral rights in this sense, we can answer the question whether corporation can take prospective responsibility: Because corporations have secondary moral rights, they have secondary moral duties. These duties depend on the opposite rights of other persons. If the corporations have duties towards someone, these duties must be a part of their intention in the decision making process. To anticipate these duties means nothing less than taking prospective responsibility.

Perhaps we have not discussed all aspects of corporate responsibility. Nevertheless these two conceptions – of Peter A. French and of Patricia Werhane – could give us a theoretical base to answer our last question. What could be the contribution of corporations to social responsibility?

### 3. THE CONTRIBUTION OF CORPORATIONS TO SOCIAL RESPONSIBILITY

To figure out what social responsibility means, we should take a look at a model showing what social orientations corporations can have. In principle there are two basic orientations: first a stockholder orientation, secondly a stakeholder orientation. Corporations with a stockholder orientation feel primarily responsible to their economic stockholders. The stakeholder orientation is based on a wider audience of outstanding interest groups. On the other hand, we have different motives for responsible behaviour. The two sets in this dimension are „self-interest“ and „moral duty“ (Weiss 1994, p.76 ff.). The following figure illustrates the four social responsibility modes that result from these dimensions:

|         |               | Orientations      |                   |
|---------|---------------|-------------------|-------------------|
|         |               | Stockholder Model | Stakeholder Model |
| Motives | Self-interest | Productivism      | Progressivism     |
|         | Moral Duty    | Philanthropy      | Ethical Idealism  |

Figure 1. Motives and orientations for social responsibility (Weiss 1994, p. 77)

The first group, the productivists, view corporate social responsibility only in terms of rational self-interest. Their main orientation is the direct fulfillment of stockholders' interests. They believe the major mission of business is to obtain profit. In this view, a free market system is the best guarantee of moral values. Productivists argue that the private sector is the motor for social improvement, and therefore they advocate a policy of tax reduction and of

economic incentives that boost private industry. In these instruments they see the major aspect of social responsibility. Reagonomics and Thatcherism are recent examples of this view.

The second group can be called philanthropists. The philanthropists believe in a moral duty for helping less advantaged members of society through organized charity and stewardship. In this view, the primary role of corporations is not only to increase their profits but also to enforce values of humanity and social aspects in society. Of course, philanthropists hold that corporate profits are the primary mission of firms. Nevertheless, moral duty drives their motives instead of pure self-interest. Proponents of this view believe that those who have wealth ought to share some of it with the less advantaged in society. So they advocate a redistribution of income through an effective tax system.

On the contrary, progressivists are oriented to the stakeholder-model. They believe in a corporate behaviour justified by a motive of self-interest. But in addition to this, they also claim that corporations have to take a more general perspective of their responsibility toward social change. Progressivists could be characterized by the values of „enlightened self-interest“, „social fairness“ or „self-control“. Social responsibility in this group is based on self-interest. But the proponents of this view know that self-interest without regarding the interests of other groups will not lead to individual wealth. So they also support the interests of their stakeholders in the form of environmental protection, energy conservation, employee stock option programs etc.

The last group we can describe as ethical idealists. They believe that social responsibility is justified when corporate behaviour supports stakeholder interests from motives of moral duty. In this view, corporations have to take full responsibility for social processes. They should help transforming business into an institution where everyone can realize his full human potential. The proponents of this orientation advocate employee ownership, cooperatives, and community-based industries as examples for a transformation in business. As well as the philanthropists they believe in the social obligation of corporate income, profits are to be shared to bring about a more human society. For the idealists, the boundaries between business and society are fluid.

So in a very wide definition we can say that social corporate responsibility means at least to make one's contribution to the social and political targets of society. Except for productivists, all groups believe that they must consider social aspects in their activities. Even if there is a very wide range of beliefs in this context, they see their social obligation.

Looking for a regulative principle for social corporate responsibility I would propose the following model: the first condition in this model is that all activities of corporations depend on agreement by the general public. In this context we must differentiate between legality and legitimacy. Legal activities are all activities according to national law. But nevertheless, legal activities could consequence moral wrong-doing. The moral legitimacy for organizational behaviour must not only be thought of as legal behavior, it also depends from a common sense of moral values. Therefore the activities of organizations – as well as individual behaviour – must be legitimized by the moral sense of the general public.

The second condition depends on the impossibility to evaluate common moral values. In reality, it seems to be impossible to ask all people as well as future generations which moral values they will share. But the minimum for an agreement of the general public seems to be the condition that nobody should be disadvantaged by corporate activities. We can call this the principle of „public agreement“. This principle omits all behaviour of corporations opposing the „enlightened interests“ of the general public. Organizational actors enforcing the potentials of putting in danger the public by their technologies or exhausting environmental resources in a way which would imperil society itself do not act by moral legitimacy. In this case, everyone will see immediately that this behaviour would not be based on „public agreement“. None of us would give his assent to a behaviour that disadvantages his own „enlightened interests“.

## CONCLUSIONS

What are the consequences of this principle of „public agreement“ to the question of social corporate responsibility? I think we must draw at least three conclusions:

First: if social responsibility means to make contributions to the public sector and to support the social, economic and political targets of society, this is nothing less than to be a good „corporate citizen“. If corporations as „corporate citizens“ can be secondary moral actors, then they have the same rights and duties in society as every other citizen has – but not more. There are no reasons to deal with corporations in a different way. We must assess the activities of corporations by the same criteria by which we judge private persons. This requires a demand for deregulation of government aid as well as the demand for legal equality. If, for example, a corporation consciously and deliberately accepts the death of 9,000 people to make money – as it happened at the Ford Motor Company with the model „Pinto“ (Lenk 1987, p. 198 f.) –

this corporation has to be closed. In a matter of principle, the U.S. Sentencing Commission Guidelines are a very good step in this direction.

Second: under the aspect of the principle of „public agreement“ every corporate behaviour which is disadvantageous to the public is not allowed. So if corporations use public goods – and every single corporation will do – like education, public security or health services, then they have to make their contributions to finance these public goods. During the last five years a lot of German multinational firms started to evade taxes in Germany. They all used legal practices not to pay taxes. But as we have seen, legality is not legitimacy. No one in a community would keep paying for public goods, without an advantage to himself. So the free-rider position corporations take, cannot be legitimized by moral arguments.

Third: to enforce an organizational behaviour supporting the social and political targets of society we would need an efficient control to hinder corporations from taking the free-rider position or escaping from their social duties. These duties include self-control, transformation to a more human society, and responsible care for environmental resources. But at this point, our discussion must end. The moral feeling of a social responsibility in any case is a quality only natural persons can have. Even if there is a special intention for corporate behavior decision-making individuals believe they must follow; these beliefs are part of the individual attitude. The stoic statesman and philosopher Cicero came to the point when he said that if somebody would not accept his duties against the community, there is no philosophical argument to convince him of these obligations.

So at last social responsibility means a responsibility for social affairs. But in this case responsibility must be a prospective responsibility. To force corporations into social obligation leads to new strategies of avoidance. Theoretically, it can be shown that the social responsibility of corporations means the achievement of their contribution to the social activities of the community. But nevertheless, this depends on the social and economic values of the individuals in the corporations who accept this obligation or not.

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