3. Moral capabilities and institutional innovation – an extended transaction cost approach

Thomas Beschorner and Martin Kolmar

3.1 INTRODUCTION

For the past few decades, globalization has been eroding the regulatory power of the nation-state, thus spurring a long and substantial academic debate that has been conceptualizing ‘global governance’ as a multi-tiered effort carried out within complex institutions and regulatory arrangements involving nation-states, companies, consumers, and global civil society (e.g., Cutler et al., 1999; Teubner, 2002, 2004; Sinn, 2003). Against this background, several prominent scholars of business ethics have suggested that it is the responsibility of transnational corporations (TNCs) to step up as ‘citizens’ or ‘political actors’ to close regulatory gaps resulting from globalization (e.g., Matten and Crane, 2005; Scherer and Palazzo, 2007, 2011).

Political philosophers and welfare economists, as we will see in greater detail below, are usually interested in the institutional settings for justice as the ‘basic structure of society’ (Rawls, 1971) or the institutional ‘rules of the game’ (Kreps, 1990; North, 1991). Since the rules of the game are traditionally set by the nation-state, political philosophy based on this concept and mainstream welfare economics are increasingly confronted with the challenge to reformulate their ideas in the face of post-national power structures.

Business ethics, political philosophy, and welfare economics obviously share some general interests in examining normative questions although they do so from different perspectives. Against the background of this overlapping set of topics and intellectual interests it is quite remarkable that the debate amongst scholars in the respective fields of research is still very limited and has not yet ‘generated a particularly voluminous literature in either political philosophy or business ethics’ (Heath et al., 2010, p. 427).

Heath et al. (ibid.) and Blanc and Al-Amoudi (2013, p. 504), for example, point out that until recently (mainly published in this century) scholars in business ethics have hardly been paying attention to the debates in political philosophy, and, vice versa, political philosophers have not been overly interested in the business ethics debate. The same seems to be true for the relationship between welfare economics and business ethics. For example, Kitzmueller and Shimshack’s article ‘Economic perspectives on corporate social responsibility’ published in 2012 in the *Journal of Economic Literature*, more or less completely neglects the debate in business ethics and refers merely marginally to literature in this field of research.

The relationship between business ethics, political philosophy, and welfare economics is a complex one: relevant for this chapter is the fact that the different disciplinary approaches usually have different ‘targets’ for their inquiries. While business ethicists are usually interested in *moral actions* of natural or legal people who act *within* an institutional framework, political philosophers and welfare economists tend to focus on the design

of the basic *institutions* of a society. In other words, they are less concerned about moral actions of the ‘players’ but locate the ethical problem at the institutional level and analyze conditions that guarantee the justice of the ‘rules of the game’. While we are aware of the fact that this characterization tends to be an oversimplification in a complex field of research, we want to make the distinction between moral actions and institutions the starting point of our chapter.

We understand moral actions as activities by both individuals (the person, e.g., as consumer, employee, etc.) and organizations (e.g., firms). With the term ‘institutions’ we characterize formal or informal systems of rules in which actions take place. We find institutions as societal institutions (most prominently law) as well as within organizations (e.g., job descriptions, corporate missions, codes of conduct). Institutions reduce the complexity for decision-making processes while making some decisions more likely than others. With this pre-framing of the ‘situation’ institutions also fulfill an important function to coordinate interactions between different actors. Institutions can sanction actions that are not in line with their defined rules.

What is important now in the context of business ethics is the question of whether solving moral problems should focus on moral actions of the players or on institutions of the rules of the game. We argue that this is *prima facie* not clear but depends upon certain circumstances, which will be elaborated in this chapter.

The key questions of this chapter are the following. Where to locate responsibility? Should we rely on actions, on institutions, or on both? How are actions and institutions interrelated? And what follows from this for business ethics? In order to answer these questions, we suggest a multilevel approach that allows us to assign responsibility to distinct societal actors and institutions that regard business ethics as an embedded aspect of the general program to help create a ‘good’ society. For this purpose, we will first develop a model that distinguishes between five analytical levels. This model provides the foundation for addressing the problem of locating normative responsibility (Section 3.2). In Section 3.3 we will develop a transaction cost approach by demonstrating some ‘ideal-world irrelevance results’ (that assume zero transaction costs) and then including transaction costs in our approach. We argue that if one wants to understand the location of responsibility that relies on institutions or moral actions, one has to understand the idiosyncratic transaction costs that are caused with respect to a concrete societal problem. While our analysis up to this point might suggest ~~that assign~~ responsibility to either moral actions or institutions, we will argue, in Section 3.4, more complex view is in fact necessary and adequate to fully understand the consequences of an assignment of responsibility. This proposed dynamic perspective leads us to two observations: our view on ‘optimal’ institutional design might differ significantly from the one suggested in traditional welfare economics, and the moral actions of individuals or firms are not merely seen as moral problem-solving in a given institutional framework but define the viable institutional options for participation in the political arena of institutional choice. Section 3.5 summarizes the most important results of our investigation.

In the introductory chapter of this book, Georges Enderle stresses the importance of two different streams in business ethics with which we strongly agree: one emphasizes the normative-ethical dimension and deals with questions of moral reasoning; the other stream concerns descriptive-explicative approaches that pertain to the application or implementation of moral norms in organizational and/or societal contexts. The term ‘responsibility’ is an important normative term with a long philosophical tradition. Against this background, we should be very clear about what we intend with this chapter and how we understand the term in the context of this chapter.

Our ideas are clearly located in the second stream of research in business ethics. What we are trying to do in our chapter is an (extended) economic analysis (descriptive-explicative) of the question on what societal levels responsibility should be located. Moreover, we do so with a very specific perspective while focusing on transaction costs. It is important to note, we are not doing moral reasoning of any kind in this chapter, but we assume that there are given (reasoned) moral problems that need to be solved, and our simple question is: how to do so? Consequently, the term ‘responsibility’ in this chapter characterizes a very hands-on and metaphorical understanding. What is the cheapest solution to solve a given moral problem? Where (on what societal levels) should responsibility be located or assigned?

3.2 A MULTILEVEL APPROACH TO LOCATE MORAL RESPONSIBILITY

In order to address our research question more precisely, we suggest a multilevel approach that conceptualizes the problem of where to locate normative responsibility. The multilevel model that we use is an adapted and extended version of the taxonomic model of institutions introduced by Williamson (2000). For our purposes it makes sense to distinguish between five different levels (see Figure 3.1).

3.2.1 Level Zero (L0): Language, Declarative Speech Acts

The most basic level is L0 for which we follow John Searle (2010) who – building on Anscombe (1958) – provides the ontology of institutions as a specific class of speech acts called ‘declarations’. Humans possess:

the capacity to impose functions on objects and people where the objects and the people cannot perform the functions solely in virtue of their physical structure. The performance of the function requires that there be a collectively recognized status that the person or object has, and it is only in virtue of that status that the person or object can perform the function in question. (Searle, 2010, p. 7)

Institutions come into being by the repeated applications of specific linguistic representations (declarations), and they cease to exist as soon as people no longer collectively recognize their status. They are at the same time epistemologically objective and ontologically subjective. The hybrid nature of institutions distinguishes them from most phenomena studied in the natural sciences; they are products of ‘shared fantasies’.

Acknowledging the specific ontology of institutions is normatively relevant because it creates an awareness of the fact that a number of important constraints in our normative thinking are the results of *prima facie* normatively arbitrary conventions. Any ethical theory has to acknowledge constraints that are objectively imposed by, for example, resource availability and the (physical) laws of transformation, but it is crucial to distinguish these objective constraints from merely self-imposed constraints that only exist because of a lack of awareness of their subjective ontology and that are therefore a means to achieve normative goals.

Examples for epistemologically objective and ontologically subjective phenomena that may constrain ethical thinking are the social concepts of gender (Hacking, 1999), nationality, religion, the man–nature dichotomy, and so forth (Pinker, 2002). Without an awareness of their character as ‘shared fantasies’ they may enter as an objective constraint into the moral endeavor with far-reaching consequences for our perception of what is right and wrong. Especially when speech act conventions become an integral part of the individuals ‘social identities’ (as with, for example, nationality or religion), their *prima facie* arbitrary nature often remains unnoticed and unexamined and can therefore influence the moral gut feelings of the people.

3.2.2 Level One (L1): Regulative Normative Ideas

Embedded in the speech act conventions of a society is L1, which summarizes the regulative normative ideas within a society. In a specific society there exist specific normative ‘blueprints’ like religious beliefs that impose some normative reference system, a stock of normative theories about the good and the right, and a set of action-guiding social norms and conventions. In standard economic theory, this stage is taken as given and usually summarized in some preference relation or utility function of the individuals. This simplifying assumption makes sense if the purpose of economic theorizing is purely positive and restricted to a better understanding of the functioning of specific institutions like markets or firms. However, from a normative point of view, it easily gets dysfunctional because it blurs the fact that part of the preference structure is in fact influenced by institutions (like schooling, L3) and social interactions as well as the basal language games (L0) because the regulative normative ideas of a society necessarily have the hybrid structure of (perhaps competing) declarative speech acts (L0), and a theory of justice as a theory of institutions has to take this fact into consideration. The assumption of exogenous preferences has significant normative implications, and there is an overwhelming body of literature by now that shows that this assumption is in many contexts empirically flawed (Grüne-Yanoff and Hansson, 2009), even under narrow market conditions (Koszegi et al., 2014).

<Insert Figure 3.1>

3.2.3Level Two (L2): Societal Institutions

L2 summarizes the basic formal institutions of a society such as the constitution, the basic laws, and the basic institutional roles (like senator, president, chancellor, judge, etc.) as well as the formal relationships between them. These institutions do not necessarily have to be formally codified, but they have to be collectively recognized as informal institutions to the extent that they become epistemically objective from the point of view of a sufficient number of actors. Indeed, we can observe the emergence of an increasing number of such informal institutions in modern societies. Voluntary social and environmental standards of businesses (e.g., Social Accountability International SA8000, AccountAbility AA1000, Business Social Compliance Initiative), new governance mechanisms (e.g., the Global Compact or the reporting standard of the Global Reporting Initiative) or product labels (Forest Stewardship Council, Marine Stewardship Council, etc.) are just some examples of new societal regimes that are not based on (formally) binding law but on (informal) aspects of legitimacy. What both – formal and informal – L2 institutions have in common is their coordinating function between distinct (types of) actors in arenas or ‘organizational fields’ (DiMaggio and Powell [1983] 1991, pp. 64f.; Beschoner, 2004, 2013). Thus, we can call them interorganizational institutions. Together they form the institutional context in which individual behavior is embedded.

3.2.4Level Three (L3): Corporate Citizenship

The constitution and basic laws of society define and provide the blueprint for organizational actors like corporations (corporate law), political parties, foundations, NGOs, and so on that constitute L3. The basic structure of a specific corporation, for example, should be in accordance with the basic principles defined by the corporate law (partnership, limited, etc.) but may – in market economies – have independent legal personality. If one addresses, for example, corporate social responsibility, one addresses an organizational actor – a firm – at L3. Organizational actors are embedded in other L2 institutions like labor and competition law. In addition, the above-mentioned non-codified and informal societal institutions of L2 articulate expectations – grounded in belief systems (L1) and specific language games (L0) – towards these actors, which might result in new types of

organizations (e.g., social entrepreneurs) or in changes of the governance structure of existing organizations. Hence, L3 concerns elements to constitute (different types and forms of) organizations as well as intraorganizational governance structures.

3.2.5Level Four (L4): Individual Moral Actions

Finally, an important class of individual acts is summarized at L4. The motivation and capability to act depends on the basic language games in which individuals perceive their social reality (L0), their specific system of beliefs, concepts of morality, and norms (L1), the foundational institutions of society (L2), and the specific constellation of organizational actors (L3) in which the individual is situated. In a market economy, those acts have either the form of, for example, short-term contracts backed up by contract law (L2), or voluntary exchanges backed up by custom, norms, or reputation mechanisms (L0, L1). These interactions constitute largely short-lived institutions that in their most extreme form come into and out of existence with the mutually articulated will to exchange some highly perishable good or service. In the context of the chapter, L4 is relevant, for example, for individual actions as consumers and employers/employees (within the regulatory framework of L2 and L3 governance structures).

<section break>

So far it may appear as if we presuppose a ‘top-down’ causality of the above hierarchical structure (illustrated by the arrows to the right of the boxes in Figure 3.1). However, there exist potential ‘bottom-up’ causalities as well if incentives provided by ‘lower-level’ cause acts that influence ‘upper level’ (illustrated by the arrows to the left of the boxes in Figure 3.1). The most obvious example is individual behavior in elections that may change the basic laws of society, and even, if involving change in power, may overthrow the constitution (L4–L2). For example, a primary goal of the labor movement of the ~~early twentieth~~ century was to create a class consciousness, and new social movements on peace, environment or women’s rights in the late twentieth century (for a historical overview see Alexander, 2006) promoted ideas that influenced perceptions of reality and values at L0 and L1 (Chatfield and Kleidman, 1992; Rowbotham, 1997; De Steiguer, 2006). The debate on corporate citizenship stresses the moral and political roles of businesses in societies that point to the relation between L3 and L2. And, of course, to take another example, employees (L4) do not merely follow the rules of a given governance structure within organizations, but are also influencing the rules by their individual actions.

To sum up, the evolution of institutions can be conceptualized as an interdependent process where actions at the same time are influenced by and influence the given institutional structure. The way to cut this Gordian knot of institutional interdependencies depends on the specific focus of the analysis. Whereas the top-down approach sees institutions primarily as incentive or coordination mechanisms that shape actions, the bottom-up approach focuses on the emergence and enforceability of institutions.

In the following sections, we will outline some selected relations between the different analytical levels in greater detail while especially focusing on the relationships between L2, L3, and L4.

<a>3.3TRANSACTION COSTS: TALES ABOUT IDEAL AND REAL WORLDS

3.3.1Locating Responsibility in an Ideal World without Transaction Costs

The first theoretical possibility to locate responsibility would be to exclusively assign it to L2, L3 or L4. As shown elsewhere (Beschorner and Kolmar, 2015) in greater detail, in the absence of transaction costs, such an

approach would lead us to irrelevant results in the following sense: with ideal moral actors who agree on the standard of morality, it is irrelevant whether we assign responsibility to individual actors (L4), to organizations (L3), or to societal institutions (L2). The intuition is straightforward: any ‘gaps’ left open by, for example, ill-designed L2 or L3 institutions would be closed by moral actions that are made possible because zero transaction costs enable the individuals to perfectly act according to their moral standards. Potential externalities caused by imperfect higher-level institutions are literally internalized by the actors because their desire to act morally aligns individual and social interests. This is the perfect ‘Kantian’ world. On the other hand, with ideal L2 institutions, individuals need not act morally but can focus on their narrow self-interest because the incentive system induced by the institutional rules can ensure that all potential externalities are internalized. This can always be done in the absence of transaction costs because L2 institutions can take every potential contingency into consideration. This way of thinking can be called the ‘Rawlsian’ approach, and it is also the approach of standard welfare economics. By the same token, with ideal L3 organizations like firms, individual morality and L2 institutions remain irrelevant because firms can step in and close any gaps left open by imperfect L2 institutional design and/or imperfect moral actions by creating adequately designed governance structures. This might require deviations from the objective of profit maximization, which highlights the means-character of this objective. This is the perfect business world, and the debate about corporate social responsibility and corporate citizenship has its habitat here. And finally, the analysis shows that without moral behavior, corporate citizenship, or simply societal institutions, potential externalities remain uninternalized. This situation has been described by philosophers in the tradition of Hobbes ([1651] 2010) as chaos or war of all against all and can be characterized as inefficient anarchy. **Table 3.1** summarizes the above argumentation.

Table 3.1 Locating responsibility in ideal worlds

L4 (Individual Morality)	L3 (Corporate Citizens)	L2 (Constitutional Design)	Implications
Moral	Profit maximization	Non-existent	Perfect ‘Kantian’ world
Selfish	Profit maximization	Perfect constitution	Perfect ‘Rawlsian’ world
Selfish	Perfect ‘corporate citizen’	Non-existent	Perfect business world
Selfish	Profit maximization	Non-existent	Inefficient anarchy

We have dubbed the results from the above line of reasoning ‘irrelevance results’ because they show that in a world with zero transaction costs, the institutional level that becomes the focus of analysis is irrelevant with respect to the expected outcomes. The irrelevance results describe an analytical limit case that has two important implications. First, any ‘partial’ analysis of institutional designs in the Rawlsian sense, corporate social responsibility or individual moral actions, implicitly rests on the assumption that the implied level of analysis is adequate, or to put it differently, that the comparative transaction costs are minimal at this level.

Second, in order to address the best way to assign responsibility, one has to explicitly analyze and compare the specific transaction costs. Without any theory of comparative transaction costs, any partial attempt

to address the question of responsibility remains necessarily ad hoc. In the following we further elaborate on this point.

Since none of the three options for perfect worlds is realistic, the location of responsibility must follow the restrictions with which real institutional design in this very broad sense is confronted. All of the above ideal worlds are overly 'optimistic', so to speak. The trust in L2 and L3 institutions emerges from a rather blunt view of the individual but with high hopes in the ability of institutions to solve conflicts of interest. On the contrary, the 'Kantian' view of the individual does not need to bother about L2 and L3 institutions because of the implicit trust in the morality of individuals.

Three additional preliminary results of this argumentation should be stressed at this point. First, since zero transaction costs are obviously unrealistic it becomes clear that focusing on only one institutional level will hardly result in functional solutions (or maybe just in very rare cases), understanding the interplay between different institutional levels provides a more fruitful enterprise. Second, the analytical structure of the relationship between different levels of analysis exhibits 'self-similarities' amongst different institutional layers. In other words, the interplay between L2 and L3 (societal institutions and corporate citizenship) is structurally similar to the relationship between L3 and L4 (organizational ethics and individual moral actions). Third, the irrelevance results are (implicitly) based on the assumption of unrestricted ability of L2 and L3 institutions as well as individuals (L4) to internalize externalities, or, in other words, zero transaction costs. Including transaction costs as an additional category into the analysis will allow it to move from 'ideal worlds' to 'real worlds', as we will show on the following pages.

The term 'transaction costs' is closely related to institutions since transaction costs can be used to assess the relative 'imperfections' of different institutions. It is important to note that it is not adequate to define them – as some authors do – for the limited context of market transactions (Arrow, 1970). Rather, one should go for a broader concept that also includes the costs 'of measuring and policing property rights, of engaging politics in power, of monitoring performance, and of organizing activities' (Cheung, 1992, p. 246). Moreover, we suggest adding the costs of implementing concepts of morality as internalized behavioral constraints of the individuals. This notoriously vague definition of the concept is good enough for our purposes to act as a working definition in the following, and we will add sources of transaction costs that are not directly related to L2–L4 institutions like bounded rationality (L1) or dysfunctional epistemologies (L0) later on.

Based on this definition, the trade-off that has to be solved when assigning normative responsibility between the different levels is clear: from the point of view of an (even perfectly moral) individual, figuring out what is the right thing to do in a specific situation is usually more costly than to just follow a rule. Hence, the creation of rules that can then be codified at L2 frees resources for other valuable purposes, and the question **becomes** how costly the development, implementation, and enforcement of these rules are, and to what extent they are necessarily imperfect. In the absence of perfect L2 institutions, individuals will make moral mistakes by simply following the rules.

A qualitatively similar trade-off exists with respect to L2–L3 and L3–L4 institutions. For example, simply following existing safety standards (L2) imposed by the Food and Drug Administration may be a good thing for the food industry under normal circumstances. However, if firms or universities (L3) and individuals (L4) are involved in the development of hitherto hardly known processes and products, playing according to the rules may not be enough because the rules can by definition only imperfectly cope with the normative challenges

of scientific and technological progress. A good practical example of how societies deal with this kind of challenge is found in paragraph 15 of the Rio Declaration, which defines a precautionary principle for the approval of new pharmaceuticals or technologies whose side-effects and long-term consequences are only barely known. The declaration (L2) leaves a blank and delegates normative responsibility to the organizational (L3) or individual (L4) level. With respect to intrafirm relations on L3–L4, rules in the form of codes of conduct for accepting gifts from suppliers, for example, might be an effective way to avoid corruption and bribery. In more complex situations, however, it might be more adequate to rely on moral judgments of the employees because compliance measures or risk management systems might lead to exorbitant transaction costs and are likely not going to even qualitatively cover all possible types of behavior.

Despite its intuitive appeal, the devil turns out to be in the details if one seeks to adapt the basic concept of transaction costs from institutional economics to the problem at hand. Given that we use transaction costs as the central variable for the assignment of responsibility between different institutional arrangements, we need a concept of transaction costs that is comparative and that can (at least qualitatively) be operationalized.

3.3.2 Introducing Transaction Costs That Are Comparable and Can Be Operationalized

A comparative approach

In order to be able to understand if certain views on the location of responsibility are functional or dysfunctional with respect to the underlying normative goals, one has to be able to compare transaction costs that emerge from different institutional settings. We follow Williamson's (1985) strategy to conceptualize *comparative* transaction costs as a measure of the difference in performance of different institutions, which focuses on institution-specific differences in contractual and organizational arrangements and the implied inefficiencies (Klaes, 2000), bearing in mind that not all institutional arrangements may be equally well-adapted and applicable for different organizations or societies. Comparison and contextualization can take place in two different ways: horizontally and vertically:

Horizontal comparisons Social or historical comparisons of relative transaction costs on the same analytical level (L2, L3 or L4) are called *horizontal*. Examples would be investigations of relevant L2 institutions in different national contexts (Matten and Moon, 2008) or of differing sector-specific corporate social responsibility (CSR) initiatives in one or more countries (Beschoner et al., 2013). A standard example from welfare economics is the debate whether externalities should be internalized by means of Pigouvian taxes, regulations, or the creation of new markets. Classical examples on the firm level (L3) would be comparative analyses of CSR programs in different companies (e.g., comparisons between firms in different sectors, in different countries, or between small and medium-sized enterprises and multinational corporations, etc.). And last but not least, examples on the individual level (L4) would be comparisons between normatively different leadership styles, moral orientations of CEOs, or the role of CSR managers. The key for horizontal comparisons is, of course, to hold other institutional settings constant. Without the *ceteris paribus* clause, it is impossible to causally identify transaction cost differentials between different institutional arrangements at the same level.

Vertical comparisons Far less present are, however, studies that are dealing with *vertical* comparisons of transaction costs between different institutional levels, for example, L2–L3, L3–L4 or L2–L4. From a social or historical comparative transaction cost perspective, it can be asked: what assignments of responsibility between L2, L3, and L4 are likely to be more functional (efficient) to promote social welfare in a given society? How have assignments of responsibility changed over time between the different institutional layers? What are

the relevant constraints on the design of the different institutional levels, and what are the implications of these constraints for the assignment of responsibility?

<c>Operationalization

For using transaction costs as the crucial variable for the assignment of responsibility between different institutional arrangements, it is necessary to identify sources of transaction costs to operationalize the approach. Attaching a price tag to transaction costs is a difficult task in general, and it is even more difficult to do with respect to normative issues as discussed in the context of this chapter. Qualitative comparisons, however, are possible, and we distinguish between several sources of transaction costs. The list is not considered to be exhaustive, and more detailed explanations of these categories have been outlined in Beschoner and Kolmar (2015):

<d>Transaction costs O1: complexityTransaction costs are affected by the complexity of the decision problem. While for simple and repetitive decisions, formal institutions or relatively easily applicable rules of thumb can help to internalize potential externalities, this might not be the case in complex situations that are often characterized by a larger number of alternatives one has to choose from and a larger number of possible outcomes (for each chosen alternative). We explain this argument elsewhere (Beschoner and Kolmar, 2015) in more detail by referring to three important classes of problems for which complexity is crucial, which are: (1) asymmetric information (Rothschild and Stiglitz, 1976; Stiglitz, 1977), (2) limited computational power/cognitive capabilities (Simon, 1986; Ariely, 2008), and (3) intrinsic motivation (Akerlof and Kranton, 2000; Gneezy and Rustichini, 2000).

<d>Transaction costs O2: moral capabilitiesWe assume that individuals possess moral agency in the sense that they have the principal ability to act morally. Since they may, however, be bounded in their moral capabilities, these capabilities are another important source of transaction costs. Moral thinking evolves from principles of universalizability (Mackie, 1977; Hare, 1981), which is easily at odds with our moral dispositions that are more in line with what is called *parochial* altruism or *tribalism* (Choi and Bowles, 2007; De Dreu et al. 2010; Bowles and Gintis, 2011; and Kolmar, 2015b for a recent survey). Moral reasoning that extends beyond the narrow bounds of kinship and group is a cultural achievement that does not easily follow from intuitive compassion but from the rational understanding of one's prejudices and that therefore needs experience and education (and thereby causes transaction costs in the form of opportunity costs of time). Recent findings in psychology and the neurosciences paint a relatively coherent picture about the structure of our moral experiences and reasoning that is of importance for an understanding of the transaction costs of moral reasoning (Kahnemann, 2011; Greene, 2013).

Moral capabilities – as with most mental faculties and manual skills – depend on practice. Individuals who are merely rule followers in their daily lives will most likely face difficulties in fully grasping and understanding the moral implications of their decisions in their roles as rule setters, for example, during elections. The ability to extend and universalize one's view beyond narrow self-interest depends on one's involvement and confrontation with conflicting interests and moral dilemmas in which it is not possible to retreat to the position of rule follower. 'Moral literacy', like other forms of literacy, depends on 'training'. If we follow this line of argumentation, we reach the conclusion that a complete delegation of normative responsibility to some abstract institutional level like L2 can be dysfunctional because it demotes individuals to rule followers. On the other hand, L2-L3 institutions can play an important role in supporting moral actors by providing

information and defining arenas for normative discourses in the form of democratic principles at the state level or the implementation of normative orientation, structures, and processes to foster morality within firms.

Transaction costs O3: heterogeneous moral views of the moral actors We have assumed up to this point that all moral actors agree upon the same moral principles, which has defined away some important and difficult problems. Once one allows for divergent moral views, the position developed in O2 easily gets complicated because it relies on a division between divergent moral views. A successful discourse about heterogeneous moral views requires some ‘meta-morality’ in the form of a common currency that can be used to structure the debate. But if individuals cannot agree upon such a common currency, the whole process gets stuck. In addition, there is always a risk that normative principles are used to defend one’s interests.

Transaction costs O4: enforcement As long as L2 and L3 institutions are not enforced, they remain merely declarative speech acts with symbolic meaning but without practical consequences (if they do not merely act as coordination devices for the individuals). Societies usually tackle this problem in the way that L2 institutions define formal and general rules together with L3 governance structures like the bureaucracy, judiciary, and executive with the purpose to further specify, enact, and enforce the set of L2 rules. By the same token, and related to the first argument, governance structures within firms (L3) define institutions for the actions of employees (L4) to act in accordance with the company’s goals. Depending on the complexity and range of the regulated and managed field (in societies or businesses), the enforcement of formal rules can be a simple, a difficult, or even an impossible task. At any rate, enforcement creates transaction costs as costs of creating the institution mostly in the form of people and resources devoted to the enforcement of institutions that could otherwise have done something directly productive or have been used differently.

section break

Assuming the transaction cost O1–O4 can be *qualitatively* determined (which raises some methodological problems that are, however, not impossible to solve) with respect to a given moral problem, they can be used for a (horizontal or vertical) comparison of (two or more) cases. The normative recommendation solves the moral problem through the institutional arrangement with the least transaction costs.

Against the changes of O1–O4, we have discussed elsewhere (Beschorner and Kolmar, 2015) that the process of globalization and the implied transition from national to post-national problem structures clearly points to the importance of addressing the vertical allocation of normative responsibility. It thereby underpins a well-known argument in business ethics (e.g., Zadek, 2001, 2004; McIntosh et al., 2003; Beschorner, 2004, 2014; Matten and Crane, 2005; Scherer and Palazzo, 2007, 2011; Wettstein, 2010, 2012): the less a traditional normative consensus expressed by L2 institutions is enforceable by nation-states, the greater becomes the relevance of and the need for new forms of governance and moral responsibility of (individual and organizational) actors (e.g., corporate citizens).

3.4 MORAL ACTIONS AND INSTITUTIONS: INTERDEPENDENCIES IN A DYNAMIC PERSPECTIVE

So far this chapter might suggest that moral actions and institutions are largely independent and exclusive choices. This view would oversimplify matters; it is likely that the types of institutions that are in place interact in complex ways with the morality of the individuals who live in the society. This complex interaction has

already been suggested in Figure 3.1 where the arrows between the different institutional layers point to the possibility of complex interdependencies. The idea that moral actions and institutions are interdependent is in fact very old. Aristotle argues that: '[l]awgivers make the citizen good by inculcating habits in them, and this is the aim of every lawgiver. If he does not succeed in doing that, his legislation is a failure. It is in this that a good constitution differs from a bad one' (Aristotle, 2002). In order to make sense of such a view one needs, however, a view of the nature of human beings that is more complicated than the one underlying the standard approach used in economics. If it is assumed that individuals have exogenous preferences, institutions can only influence outcomes by changing the constraints under which individuals choose; they are *incentive mechanisms*. If one, however, assumes that human beings are neither willing to unconditionally act morally, nor are they inclined to follow their narrow self-interests, there is room to follow Aristotle's idea, if one assumes that individuals are hybrid beings whose willingness to act morally depends on the specific social and institutional context and, therefore, interacting with the rest of the institutional structure.¹⁰

In order to be able to cope with interdependencies, it is useful to integrate our arguments into a dynamic model by introducing a time variable $t = \dots -2, -1, 0, 1, 2, \dots$ where 0 denotes the present, negative numbers the past, and positive numbers the future. Larger numbers (in absolute terms) denote greater distance from the present. The dynamic perspective is important for understanding the interdependencies between different institutional layers but also to 'track' changes in transaction costs over time.

We will illustrate this approach by sketching a short (intraorganizational) example on compliance management that explains the systematic interplay between action and institutions. We assume that a company has been involved in corruption cases at some period of time $t = 0$ and undertakes measures (e.g., implementing a set of compliance rules) to prevent future incidences. From a static perspective, it could be argued that the introduction of a compliance system creates an intraorganizational institution of corporate governance (L3), which reduces transaction costs at $t = 1, 2, \dots$ by defining common values (O3) and decreasing the complexity of the (moral) decision-making process (O1) for employees interacting at L4. On the other hand, a compliance system increases O4 transaction costs by the need to take measures of implementing and enforcing the organizational rules.

For systematic reasons a compliance system cannot cover all possible situations by its defined organizational rules (e.g., Paine, 1994); it is not *state contingent*. Businesses are aware of this fact, and consequently compliance measures such as codes of conduct sometimes include a final paragraph that articulates that the moral awareness and moral actions of each and every employee remains important (Beschoner, 2014). In technical terms we can say that an L3 governance gap is identified that needs to be filled by moral action at the L4 level. This aspect points to possible consequences for O2 transaction costs (moral capabilities). Depending on the specific design of the compliance system, moral capabilities can increase (and transaction costs decrease), if it is supported by certain (reflexive) institutional measures that allow moral learning processes. On the other hand, moral capabilities can decrease (and transaction costs increase) as a consequence of 'moral crowding-out' towards a strict rule-following routine without much moral reflection.

What we have described above has been assumed to take place in $t = 1$. However, it can easily be imagined that the effects of the system change spill over into the more distant future, for example $t = 2$. Even if the new governance structure has positive short-run effects in $t = 1$, there may be unintended long-run effects that only show up from $t = 2$ onwards, like, for example, 'moral crowding-out effects' (Gneezy et al., 2011). One

way out of this dilemma for the company would be to invest even more in compliance measures and their enforcement, driving transaction costs up further. However, given that crowding is an issue, the problem would likely continue even with stricter rules and improved enforcement measures (O4). Instead, fostering the moral capabilities (O2) of the employees by raising awareness and improving moral decision-making processes might be a more effective measure to reduce transaction costs.

In addition, it is important to stress that L3 and L4 are not merely inferior ‘gap fillers’ for L2 institutions – which is the traditional view of compliance and integrity approaches (Paine, 1994) – but they are potentially recursively linked with each other. In our example, developing moral capabilities in $t = 0$ might be not merely more efficient in $t = 1$ and $t = 2$, but there is also the possibility that they contribute to better L3 governance structures in $t = 1, 2, \dots$, for example, by a previously unattainable extension of the code of conduct beyond the prevention of corruption cases or measures that are even more closely related to the core business of the company (e.g., socially responsible supply chain management, ecological production process, etc.).

Whether these repercussions and dynamic interactions exist, their direction of causality is ultimately an empirical question that is, up to now, largely unanswered (Gneezy et al., 2011). What is important here is that the above-sketched dynamic perspective allows it to conceptually integrate repercussion effects into the analysis, which is not possible with the standard ‘institutions as rules of the game’ perspective.

It is important to note that the systematic consequences of our short example are not limited to the interplay between L3 and L4 but can be extended to other levels too. With respect to L2–L3, for example, it can be argued that the idea of corporate citizenship is not restricted to the establishment of moral practices within the organization. It includes an active involvement and contribution of the firm to societal institutions alone, as widely discussed in business ethics (e.g., Zadek, 2001, 2004; McIntosh et al., 2003; Beschoner, 2004, 2014; Matten and Crane, 2005; Scherer and Palazzo, 2007, 2011; Wettstein, 2010, 2012). By the same token, however, the possibility of interdependencies points at a dimension of the problem rarely discussed in business ethics, namely that different L2 institutional designs may foster or hamper the development of corporate citizenship through the development of certain ‘moral capabilities’ (Beschoner, 2014).

To sum up, with a more complex understanding of actions than usually assumed in economics, neither employees, nor companies, nor consumers can be assumed to be puppets on the string of the given L2 institutional structures, as traditional welfare economics implicitly suggests. It is important to focus on governance mechanisms between different levels that take into account the (long-term) capacity of both actions and institutions to develop further.

3.5 SUMMARY

In this chapter we have suggested a multilevel approach to locate normative responsibility in societies that is grounded on an extended transaction cost approach. The transaction cost perspective allows us to develop horizontal and vertical comparisons between different levels of actions and institutions that are based on four sources of transaction costs: limited cognitive abilities in complex decision-making situations, (bounded) moral capabilities, heterogeneous moral views, and enforcement costs of rule enforcement. The main points developed in the chapter are as follows:

1. Contributions that merely focus on a single level (L3, L2 or L4) face the danger of reaching too low and looking at the problem of finding functional social institutions that effectively address normative issues from the wrong angle.

2. In most cases, normative responsibility needs to be located on different societal levels simultaneously. The analysis of comparative transaction costs in a given (historical and cultural) context provides guidelines for a functional division and location of responsibilities.

3. Due to 'self-similarities' amongst different levels, our transaction cost approach can be applied with respect to the interplay between L2 and L3 (societal institutions and corporate citizenship) as well as between L3 and L4 (organizational ethics and individual moral actions) institutions.

4. The process of globalization clearly points to the importance of addressing the vertical allocation of normative responsibility and thereby underpins a well-known argument in business ethics: the less a traditional normative consensus expressed by L2 institutions is enforceable by nation-states (O4), the greater becomes the relevance of and the need for new forms of governance and moral responsibility of (individual and organizational) actors (e.g., corporate citizens).

5. The suggested multilevel approach allows for a deeper understanding of the dynamic processes and recursive relationships between individual actions and institutions. Individual (moral) beliefs are embedded in institutional contexts, and institutional contexts are influenced by (moral) actions. From this point of view, L2 or L3 institutions can only be very rarely accurately conceptualized as incentive mechanisms. By the same token, moral actions cannot merely be seen as moral problem-solving in a given (dilemma) situation caused by 'gaps' in higher-level institutions.

6. From a dynamic perspective, our analysis points to the relevance of governance mechanisms between different levels, L0–L4. From the point of view of an epistemology that conceptualizes individuals as potentially moral agents who adapt to their social and natural environments, it would be a surprise if optimal institutional designs were ~~traditional~~ 'incentive mechanisms' as suggested by traditional welfare economics. On the contrary, the moral exoneration of the individual that is implicit in this view is guilty of a concept of the human being that degrades it to a simple machine and that denies it the ability and dignity of developing its moral potential (as, for example, in Aristotelian virtue ethics or Buddhist philosophy).

7. Consequently (with respect to 5 and 6), the morality of individuals as well as morality of organizational actors are not just regarded as filling 'governance gaps' of higher-level institutions L2 or L3. Actors have, if you will, political duties to change the institutional structure within their sphere of influence.

Our analysis shows that in a number of contexts it is inadequate to see moral actions and institutions as substitutes. First, it is very unlikely that transaction costs support such an exclusive focus. And second, morality interacts with its institutional environment in complex ways. To quote Aristotle again: '[L]awgivers make the citizen good by inculcating habits in them, and this is the aim of every lawgiver' (Aristotle, 2002).

NOTES

1. The mainstream approach in welfare economics is sometimes also called the 'outside enforcement approach' because it neglects questions of rule enforcement. This approach culminated in the literature on mechanism design, which provided many deep insights into optimal institution design and allowed it to develop an integrated perspective on formerly apparently disparate phenomena like externalities, public goods, and so on (Myerson, 2008).

2. However, there is a long tradition of business ethics after 1945 in continental Europe, especially in German-speaking countries, to discuss the ethics of institutions (often called ‘social ethics’); see, for example, Rich (2006).
3. Williamson (2000, pp. 596–7) distinguishes four levels of analysis that he describes in hierarchical form. On the first level (L1) he locates societal values, norms, traditions (including religion). For Williamson, these dimensions represent the ‘embeddedness’ of the economy and the society as whole. Values, norms, and traditions change relatively slowly over time, and their origin is rather ‘spontaneous’ – as opposed to calculatively planned – and, thus, of little concern for the author. For Williamson, they can be treated as exogenous constraints for most economic applications. The second level (L2) is called ‘institutional environment’ and summarizes the ‘formal rules of the game’ (constitutions, laws, the convention of property rights, etc.) including ‘the executive, legislative, judicial, and bureaucratic functions of government as well as the distribution of powers across different levels of government (federalism). The definition and enforcement of property rights and of contract laws are important features’ (ibid., p. 597). Williamson regards this level of analysis as crucial since it allows for what he calls ‘first-order’ economization, that is: getting ‘the formal rules of the game right’. While L2 discusses the rules of the game, level three (L3) concerns the governance structures of organizations (like firms) whose basic structures are defined at L2. For Williamson, the implied reasoning is ‘second-order’ economization with the purpose to get the ‘governance structures right’. Finally, level four (L4) characterizes social interactions between individuals – from Williamson’s perspective especially agency problems – the process of resource allocation in general, and employment in particular. This ‘third-order’ economization is only of interest for Williamson’s transaction costs approach in so far as it implicitly defines the potential outcomes of different L2 or L3 structures.
4. See also Pinker (2002, p. 202). For the argument of ontological relativism, see Quine (1951).
5. See Greene (2013, Chapter 3) for a survey of the literature on behavioral tendencies like perception biases that tend to perpetuate identity-based perceptions of conflicts.
6. This is not to say that non-codified institutions played no or only a superficial role in pre-modern times. A good example for a set of informal institutional agreements that was able to overcome state boundaries and thereby facilitate trade is the medieval commercial law *lex mercatoria* (Berman, 1983; Kolmar, 2015a). See also the importance of the informal economy discussed in Chapter 14 of this book.
7. Rio Declaration on Environment and Development, UN Conference on Environment and Development, Annex I, Princ. 15, UN Doc. A/Conf.151/5/Rev.1 (1992).
8. Another example is the debate in the 1950s about scientists’ responsibility toward humanity that crystalized around the initial refusal of J.R. Oppenheimer to participate in a program to develop the hydrogen bomb (see Hijiya, 2000 for further information).
9. This point borrows from Rawls’s concept of reflective equilibrium (1971) and his ‘Kantian turn’ that became more explicit in his later writings (e.g., Rawls, 1995), delegating responsibility back to the individuals. In a nutshell, the idea of a reflective equilibrium is to use the veil of ignorance as a heuristic that allows it to detect inconsistencies and flaws in the moral intuitions of the individuals. A reflective equilibrium is reached if the moral intuitions that feed into the design of the veil of ignorance are consistent with the institutions that follow from decisions under this veil. Rawls’s reflective equilibrium can, however, be a purely theoretical concept; the quality of moral reflections does not depend on the individual’s involvement in actual decision problems. We question whether such an armchair concept is fruitful, but rather think that the idea of reflective equilibrium must be thought of as a lifelong process of moral engagement and reflection.
10. Konow (2003) relates the findings in behavioral economics to the standard theories of justice that have been put forward in order to understand how people perceive normative issues. Samuel Bowles (2009) and Choi and Bowles (2007) develop a theory of the evolution of moral dispositions as a form of parochial altruism, and De Dreu et al. (2010) show that it is the neuropeptide oxytocin that regulates parochial altruism.

REFERENCES

- Akerlof, G. and R.E. Kranton (2000), ‘Economics and identity’, *Quarterly Journal of Economics*, **115**(3), 715–53.
- Alexander, J.C. (2006), *The Civil Sphere*, Oxford: Oxford University Press.
- Anscombe, G.E.M. (1958), ‘On brute facts’, *Analysis*, **18**(3), 69–72.
- Ariely, D. (2008), *Predictably Irrational: The Hidden Forces That Shape Our Decisions*, New York: HarperCollins.
- Aristotle (2002), *Nicomachean Ethics*, Oxford: Oxford University Press.
- Arrow, K. (1970), ‘Political and economic evaluation of social effects and externalities’, *NBER Working Paper No. 3349*, accessed 2 August 2015 at <http://www.nber.org/chapters/c3349.pdf>.
- Berman, H.J. (1983), *Law and Revolution: The Formation of the Western Legal Tradition*, Cambridge, MA: Harvard University Press.

- Beschorner, T. (2004), 'Unternehmensethische Untersuchungen aus gesellschaftlicher Perspektive. Von der gesellschaftsorientierten Unternehmenslehre zur unternehmensorientierten Gesellschaftslehre' [Business ethics from a societal point of view], *Zeitschrift für Wirtschafts- und Unternehmensethik*, **5**(3), 255–76.
- Beschorner, T. (2013), 'Kulturalistische Wirtschaftsethik: Grundzüge einer Theorie der Anwendung' [Cultural business ethics: a theory of application], *Zeitschrift für Wirtschafts- und Unternehmensethik*, **14**(3), 346–72.
- Beschorner, T. (2014), 'Beyond risk management, toward ethics – institutional and evolutionary perspectives', in C. Luetge and J. Jauernig (eds), *Business Ethics and Risk Management*, Berlin/Heidelberg: Springer, pp. 99–110.
- Beschorner, T. and M. Kolmar (2015), 'Verortung von Verantwortung. Ein erweiterter Transaktionskostenansatz' [Mapping responsibility: an extended transaction cost approach], *Zeitschrift für Wirtschafts- und Unternehmensethik*, forthcoming.
- Beschorner, T., T. Hajduk and S. Simeonov (eds) (2013), *Corporate Responsibility in Europe. Government Involvement in Sector-specific Initiatives*, Göttersloh: Bertelsmann Foundation.
- Blanc, S. and I. Al-Amoudi (2013), 'Corporate institutions in a weakened welfare state: a Rawlsian perspective', *Business Ethics Quarterly*, **23**(4), 497–525.
- Bowles, S. (2009), 'Did warfare among ancestral hunter-gatherer groups affect the evolution of human social behaviors?', *Science*, **324**(5932), 1293–8.
- Bowles, S. and H. Gintis (2011), *A Cooperative Species*, Princeton, NJ: Princeton University Press.
- Chatfield, C. and R. Kleidman (1992), *The American Peace Movement: Ideals and Activism*, New York: Twayne Publishers.
- Choi, J.K. and S. Bowles (2007), 'The coevolution of parochial altruism and war', *Science*, **318**(5850), 636–40.
- Cheung, S.N.S. (1992), 'On the new institutional economics', in L. Werin and H. Wijkander (eds) (1992), *Contract Economics*, Oxford: Blackwell.
- Cutler, A.C., V. Haufler and T. Porter (eds) (1999), *Private Authority and International Affairs*, Albany, NY: SUNY Press.
- De Dreu, C.K.W., L.L. Greer, M.J.J. Handgraaf, S. Shalvi, G.A. van Kleef and M. Baas et al. (2010), 'The neuropeptide oxytocin regulates parochial altruism in intergroup conflict among humans', *Science*, **328**(5984), 1408–11.
- De Steiguer, J.E. (2006), *The Origins of Modern Environmental Thought*, Tucson, AZ: University of Arizona Press.
- DiMaggio, P. and W.W. Powell ([1983] 1991), 'The iron cage revisited: institutional isomorphism and collective rationality in organizational fields', in W.W. Powell and P. DiMaggio (eds), *The New Institutionalism in Organizational Analysis*, Chicago, IL: University of Chicago Press, pp. 63–82.
- Gneezy, U. and A. Rustichini (2000), 'A fine is a price', *The Journal of Legal Studies*, **29**(1), 1–17.
- Gneezy, U., S. Meier and P. Rey-Biel (2011), 'When and why incentives (don't) work to modify behavior', *Journal of Economic Perspectives*, **25**(4), 191–210.
- Greene, J. (2013), *Moral Tribes*, New York: Penguin Books.
- Grüne-Yanoff, T. and S.O. Hansson (2009), 'Preference change: an introduction', in T. Grüne-Yanoff and S.O. Hansson (2009), *Preference Change: Approaches from Philosophy, Economics and Psychology (Theory and Decision Library A)*, Berlin: Springer, pp. 1–26.
- Hacking, J. (1999), *The Social Construction of What*, Cambridge, MA: Harvard University Press.
- Hare, R.M. (1981), *Moral Thinking: Its Levels, Method, and Point*, Oxford: Oxford University Press.
- Heath, J., J. Moriarty and W. Norman (2010), 'Business ethics and (or as) political philosophy', *Business Ethics Quarterly*, **20**(3), 427–57.
- Hijiya, J.A. (2000), 'The Gita of Robert Oppenheimer', *Proceedings of the American Philosophical Society*, **144**(2), 123–67.
- Hobbes T. ([1651] 2010), *Leviathan*, revised edition, A.P. Martinich and B. Battiste (eds), Peterborough, ON: Broadview Press.
- Kahneman, D. (2011), *Thinking, Fast and Slow*, New York: Macmillan.
- Kitzmüller, M. and J. Shimshack (2012), 'Economic perspectives on corporate social responsibility', *Journal of Economic Literature*, **50**(1), 51–84.

- Klaes, M. (2000), 'The history of the concept of transaction costs: neglected aspects', *Journal of the History of Economic Thought*, **22**(2), 191–216.
- Kolmar, M. (2015a), 'Costly exclusion, property-rights enforcement, and the optimal supply of rival and non-rival goods', *Journal of Theoretical and Institutional Economics*, forthcoming.
- Kolmar, M. (2015b), 'Group conflicts: where do we stand?', *Homo Oeconomicus*, forthcoming.
- Konow, J. (2003), 'Which is the fairest one of all? A positive analysis of justice theories', *Journal of Economic Literature*, **41**(4), 1188–239.
- Koszegi, B., N. Mazar and D. Ariely (2014), 'True context-dependent preferences? The causes of market-dependent valuations', *Journal of Behavioral Decision Making*, **27**(3), 200–208.
- Kreps, D. (1990), *A Course in Microeconomic Theory*, Princeton, NJ: Princeton University Press.
- Mackie, J.L. (1977), *Ethics: Inventing Right and Wrong*, New York: Penguin Press.
- Matten, D. and A. Crane (2005), 'Corporate citizenship: towards an extended theoretical conceptualization', *Academy of Management Review*, **30**(1), 166–79.
- Matten, D. and J. Moon (2008), '"Implicit" and "explicit" CSR: a conceptual framework for a comparative understanding of corporate social responsibility', *Academy of Management Review*, **33**(2), 404–24.
- McIntosh, M., R. Thomas, D. Leipziger and G. Coleman (2003), *Living Corporate Citizenship. Strategic Routes to Socially Responsible Business*, London/New York: FT Prentice Hall.
- Milgrom, P. (2008), 'What the seller won't tell you: persuasion and disclosure in markets', *The Journal of Economic Perspectives*, **22**(2), 115–32.
- Myerson, R.B. (2008), 'Mechanism design', *The New Palgrave Dictionary of Economics*, accessed 5 June 2015 at <http://www.dictionaryofeconomics.com/dictionary>.
- North, D. (1991), 'Institutions', *The Journal of Economic Perspectives*, **5**(1), 97–112.
- Paine, L.S. (1994), 'Managing for organizational integrity', *Harvard Business Review*, **72**(2), 106–17.
- Pinker, S. (2002), *The Blank Slate: The Modern Denial of Human Nature*, New York: Penguin Books.
- Quine, W.V. (1951), 'Two dogmas of empiricism', *The Philosophical Review*, **60**(1), 20–43.
- Rawls, J. (1971), *A Theory of Justice*, Cambridge, MA: Belknap Press of Harvard University Press.
- Rawls, J. (1995), 'Political liberalism: reply to Habermas', *Journal of Philosophy*, **92**(3), 132–80.
- Rich, A. (2006), *Business and Economic Ethics. The Ethics of Economics Systems*, with an introduction by G. Enderle, Leuven: Peeters (original in German: *Wirtschaftsethik*, Vol. I: 1984, Vol. II: 1990).
- Rothschild, M. and J.E. Stiglitz (1976), 'Equilibrium in competitive insurance markets: an essay on the economics of imperfect information', *Quarterly Journal of Economics*, **90**(4), 630–49.
- Rowbotham, S. (1997), *A Century of Women*, London: Viking.
- Scherer, A.G. and G. Palazzo (2007), 'Toward a political conception of corporate responsibility: business and society seen from a Habermasian perspective', *Academy of Management Review*, **32**(4), 1096–120.
- Scherer, A.G. and G. Palazzo (2011), 'The new political role of business in a globalized world: a review of a new perspective on CSR and its implications for the firm, governance, and democracy', *Journal of Management Studies*, **48**(4), 899–931.
- Searle, J. (2010), *Making the Social World. The Structure of Human Civilization*, Oxford: Oxford University Press.
- Simon, H.A. (1986), 'Rationality in psychology and economics', *Journal of Business*, **59**(4), 209–24.
- Sinn, H.W. (2003), 'The new systems competition', *Yrjö Jahnsson Lectures*, Oxford: Basil Blackwell.
- Stiglitz, J.E. (1977), 'Monopoly, nonlinear pricing, and imperfect information: the insurance market', *Review of Economic Studies*, **44**(3), 407–30.
- Teubner, G. (2002), 'Hybrid laws: constitutionalizing private governance networks', in R. Kagan and K. Winston (eds) (2002), *Legality and Community: On the Intellectual Legacy of Philip Selznick*, Berkeley, CA: Berkeley Public Policy Press, pp. 311–31.

- Teubner, G. (2004), 'Global private regimes: neo-spontaneous law and dual constitution of autonomous sectors in world society?', in K.-H. Ladeur (ed.) (2004), *Public Governance in the Age of Globalization*, Burlington, VT: Ashgate, pp. 71–87.
- Walliman, T.Z. (1977), 'On Max Weber's definition of power', *Journal of Sociology*, **13**(3), 231–5.
- Wettstein, F. (2010), 'For better or for worse: corporate responsibility beyond "do no harm"', *Business Ethics Quarterly*, **20**(2), 275–83.
- Wettstein, F. (2012), 'Silence as complicity: elements of a corporate duty to speak out against the violation of human rights', *Business Ethics Quarterly*, **22**(1), 37–62.
- Williamson, O. (1985), *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, New York: The Free Press.
- Williamson, O. (2000), 'The new institutional economics: taking stock, looking ahead', *Journal of Economic Literature*, **38**(3), 595–613.
- Zadek, S. (2001), *The Civil Corporation: The New Economy of Corporate Citizenship*, London: Earthscan.
- Zadek, S. (2004), 'The path to corporate responsibility', *Harvard Business Review*, **82**(12), 125–32.