Chapter 2. Theoretical Framework

This chapter discusses the choices regarding the theoretical framework used to address the research question. First, several business-ethics frameworks are reviewed in terms of their relevance and adequacy for the research question, namely the framework of Peter Ulrich, R. Edward Freeman, Archie B. Carroll, Milton Friedman, and then the economic ethics of Andreas Suchanek. The most pertinent framework is then analyzed in greater detail, with particular attention to concepts and ideas used later in this investigation.

2.1 Selection of Theoretical Framework

Suchanek (2007) argues that the two most important dimensions ethics has been dealing with are those of justification on the one hand, and implementation on the other hand: why to be moral, and also how. Suchanek further argues that frameworks and theories of normative ethics in modern times have devoted more attention to the former aspect (of justification) than to the latter (of implementation). Only in the last few decades the crumbling of authority systems and control has raised the question of implementability and has put the question of social order in the foreground (Homann & Blome-Drees, 1992; Suchanek, 2007). If traditional answers to the demand of being moral are no longer valid (or – which has the same effect – multiple answers to the same question become available), the need to ensure implementability of ethics arises. And a successful implementation of moral demands becomes a function of a correct, or "mostly relevant," understanding of the characteristics of modern society in which those demands are to be implemented.

This investigation requires a framework suitable for its implementability focus. This section thus reviews four of the most established frameworks for business ethics and shows why they do not support the particular focus set in this research. After this, the framework chosen, the framework of *economic ethics,* is introduced and it is showed why it satisfies the theoretical requirements of this work.

1. The framework of *Peter Ulrich* pursues an integration of ethics and business/economics with a clear priority given to the first element and in general to the "lifeworld" (*Lebenswelt*). Despite the attention and the analysis of current discourses on economics and organizations, Ulrich does not provide indications for implementing moral demands in a way which

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would be compatible with management and economic practices (Ulrich, 2005, 2008).[21] His "integrative economic ethics" (*integrative Wirtschaftsethik*) results in most cases in an appeal to the good will and motivation of the actors involved.

For this reason, albeit some of the criticism on the economization of society can be shared (for instance in Ulrich, 2008, p. 141 ff.), the definition of responsibility brought forward – which refers to both sense and legitimation of the economic activity carried out – fails to account for current conditions of production and business. The responsibility concept remains too simple compared to the complex dynamics which are to be analyzed, if implementation is to be pursued. Conflicts among actors are dismissed as deriving from mental limitations or weak willpower – which implies a low probability of a successful implementation of responsibility and low appeal to companies. The framework ignores interactions among actors and the unintended effects of actions, and focuses mainly on single companies and their direct output. The theory does not consider coordination issues.

2. *R. Edward Freeman*, in his influential stakeholder approach, does not explicitly conceptualize the conflict between morality and profit, but rather the conflict of interests among different stakeholders. Freeman's framework searches for strategies which take external stakeholders into account as ways for an enterprise to better cope with increasingly competitive environments (Freeman & Gilbert, 1988; Freeman, 1984, 2004).[22] The approach is in its origin a strategic management tool and builds on how enterprises can strategically deal with external actors who "hold" a "stake" in the firm.

   While the stakeholder approach explicitly targets the implementation side of business ethics issues, and in particular possible conflicts among stakeholders, it does not provide either a strict theoretical foundation or a tool to interpret and understand societal dynamics and the impact they

21 Criticism addressed to this theory (Homann & Blome-Drees, 1992; Lin-Hi & Suchanek, 2011; Suchanek, 2007) concerns among others the lack of practical relevance: the approach does not provide practical orientation for dealing with ethical issues exactly because it considers empirical constraints (*Sachzwänge*) as existing merely in the mind of actors, but not in reality itself. This position leads to the "heroic effort" required from individuals to act out of good will even if at overt detriment of the own utility. Despite these limitations, it is to be recognized that the approach of Ulrich is grounded on a theoretical basis and is to be distinguished from others, more management-based approaches, which will be displayed in the rest of the section.

22 Freeman (1984) expands Porter's five forces model by adding a sixth one: external stakeholders and the impact they can have on the success of an enterprise if their requests and assets are not properly considered in the strategy. External stakeholders can apply as much pressure on the company as potential substitutes or new entrants to the industry.

have on implementation. Having started as a rather instrumental approach for management, the concept of "responsibility" is not extensively developed in this framework. The approach assumes that most moral requests and conflicts can be treated as management tasks before they escalate and impact the license to operate. The framework does not however clarify from a theoretical perspective why conflicts should generally be solvable via the matrices and management approaches Freeman provides.[23]

3. In the philanthropic approach to business ethics (for instance, in *Archie B. Carroll)*, the concept of responsibility is mainly derived from contingent demands and by the necessity for businesses to maintain their place and acceptance in a community (Carroll, 1991).[24] Following this understanding, an enterprise has some obvious economic and legal responsibilities to obey to, and only afterward some ethical and philanthropic responsibilities which, if realized, help protect further the license to operate.

   The philanthropic approach segments business-as-usual activities (required to satisfy only economic and legal constraints) from ethical activities, thus creating an irreducible separation between profit and ethics: profit can be used for ethical activities, but core business activities are beyond ethical. There is no integration of the two dimensions, and this segmentation makes implementability of certain moral demands *vis-à-vis* management difficult – why should it be implemented if it is per definition unprofitable, and actually beyond what a manager should take care of?

   This approach is not suitable for this research because of the dichotomy between ethical and non-ethical activities that it brings forward, and because it has a limited theoretical foundation on which to pinpoint its elaborations.[25]

4. Another highly influential approach is that of *Milton Friedman*'s profit-maximization (Friedman, 1962, 1970).[26] In his market-radical approach,

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23 Freeman connects in a particularly explicit way strategic management and business ethics orientation. He understands management as being able to incorporate business ethics requests in strategy, because it takes into account actors, dynamics and trends which impact the business. An interesting *addendum* to this thought is developed in Freeman and Gilbert (1988) where the idea of strategy is directly linked to that of ethics: the strategy a company decides to pursue coincides, or should be aligned, with the type of ethical goals it wants to respect or support. There is thus a parallel between strategizing for the firm and strategizing for ethics.

24 For this section, only the work of Carroll linked to philanthropy is considered. Later work, for instance Carroll and Shabana (2010), is not part of this review.

25 For further criticism on understanding corporate social responsibility as philanthropy see also Lin-Hi (2009, 2010).

26 To be distinguished from the so-called "shareholder approach," e.g. Rappaport (1998), which relies more on the idea of the principal-agent bound irrespective of how the market allocation mechanism would take care of social requests (see Lin-Hi, 2009).

Friedman denies both the legitimate loss of profit due to diverting funds to ethical purposes from business activities, and the fact that enterprises can be explicitly made accountable for morality in addition to what is posed by legal requirements and common social norms. Legal requirements and common social norms, together with profit maximization, represent the responsibility of businesses. There is no need for additional elements. Friedman's main argument is that not only collective welfare is maximized if each single individual maximizes the own welfare,[27] but that anything else (limiting profit for ethical purposes for instance) would be against the responsibility that agents have to their principals.

One main element, which later literature would stress, remains unaddressed, namely the presence of institutions, and the way they work. Markets rely on (political) institutions which determine who participates and who does not, and why, always leaving space for different types of coordination via the market mechanism – it is difficult in practice to talk about a perfect market, or two equal markets (Homann & Blome-Drees, 1992, p. 20–21). Beside this, pre-market institutions and market-institutions (e.g., contracts) are not able to exclude all possible interactions and there are always margins of openness where single actors can decide how to act despite existing structures and laws (Homann & Blome-Drees, 1992; Lin-Hi, 2009; Suchanek, 2004). From this follows that there is always space for ethics, and this space is not always automatically filled by business-as-usual activities. The idea that the market would take away any space for possible decisions from people (and managers) in a principal-agent relationship does not account for observed empirical phenomena and experiences, and simplifies too much existing conflict issues.[28]

To address the research question of this investigation a framework is needed which provides instruments for implementability, i.e. which accounts for institutions, contracts, markets and contingencies as well as for the fact that the presence of open discretionary spaces – and thus, of ethics – cannot ever be completely removed. For these reasons, the framework of Karl Homann and

27 This is the case because of coordination of markets, which are assumed to work perfectly and where property rights are well defined.

28 Lin-Hi (2009) on Ulrich and Friedman summarizes thus: the first assumes there are only intended effects which can be steered intentionally (through good will and appeals), the second assumes that there are only unintended effects which do not need to be checked and improved (because they are coordinated through market mechanisms). Homann and Suchanek (2005) shows that there are actually both types of effects, coordinated (more or less well) through (more or less good) institutions.

Andreas Suchanek – the *economic ethics* – is chosen.[29] Their framework acknowledges implementation as one of the main challenges of business ethics, and provides concepts to structure reality and society which are relevant for the compatibility with action. As showed in greater detail in the next section, economic ethics also provides powerful heuristic instruments to identify solutions within ethical conflicts, since it recognizes the existence of conflicts that cannot be defined or managed by appealing to good will, strategic management matrices, or charity – as some of the frameworks analyzed above would suggest.

2.2 Key Elements and Assumptions within Economic Ethics

This section describes the main principles of economic ethics as developed through the work of Karl Homann and Andreas Suchanek, its main problem statement, the assumptions, and how it supports addressing the research question of this work.

First, the definition of ethics in the work of Andreas Suchanek is considered, and implications. Economic ethics deals "with the conditions of the possibility to either create compatibility between moral and self-interest in case of a conflict, or to make the two sides fruitful so that a more successful social cooperation for mutual advantage can be achieved" (Suchanek, 2007, p. 39).[30] Similarly, it can also be said that economic ethics reflects on how to use freedom (of choice, of action) in conflict situations.

Conflicts are instances of interaction among actors whose goals differ, and in which freedom exists to act in different ways. Due to such conflicts, potential cooperation gains and collective benefits are not achieved. The usage of available freedom is open to ethical purposes (i.e. to the realization or not of cooperation gains, or to the support of functional conflicts for a societal benefit) and always dependent on the usage of freedom (i.e. the decisions) by other actors.

From the above definition follows one of the most important features of economic ethics, namely that it is an *interaction* ethics. It is not an ethics of individuals or of virtues, but an ethics which reflects on conflicts and on poten-

29 "Economic ethics" is the translation of the original German formulation *"ökonomische Ethik."* This is to be distinguished from the translation of two other common German formulations: *Wirtschaftsethik* and *Unternehmensethik*, respectively "economic ethics" (as in ethics of economics, of the economic system) and "business ethics" (including ethics of enterprise and management). This differentiation is not common in the English-speaking literature, which mainly uses the expression "business ethics" for both. The theory of "economic ethics" here considered is a framework for both economics and business, and the adjective 'economic' refers to the underlying method.

30 References for the theoretical framework are primarily Homann and Suchanek (2005), and Suchanek (2007). This investigation does not consider the work of Andreas Suchanek published in 2015, which was under editorial review when finalizing this text.

tial and actual interactions (Homann & Suchanek, 2005, p. 354). In economic ethics, conflicts are not ignored and morality is not limited to those cases where a convergence of interests naturally occurs. It is exactly in those cases where goals do not immediately coincide that the theory proves its voice.

Another characteristic feature of this theoretical approach is the relevance given to implementation and empirical conditions, condensed in the programmatic formulation of "to explain in order to design" (*Erklärung zwecks Gestaltung*, Homann & Suchanek, 2005, p. 24). Given a certain conflictual status quo, economic ethics has instruments to analyze and explain in terms of strategies, incentives and interactions why the status quo looks the way it does and the reasons the conflict exists. Once this is understood, it is possible to go beyond the status quo in a theoretically controlled way and design solutions for an improved, new status quo. Understanding the reasons behind the conflict allows for formulating solutions and demands which can potentially be implemented, instead of suggesting solutions based on a simplistic understanding of the conflict. Such latter solutions would then have very low possibility of being implemented. The explanation is not for its own sake but is aimed at changing the status quo – i.e. solving the conflict – and providing instruction on how it can possibly be improved.[31]

The Principles of Economic Ethics, as they are detailed in Suchanek (2007, p. 11), complete this section. These principles combine assumptions on society and practice with implications for ethics and anthropology (in terms of *Menschenbild*):

1. You can always see things differently – and other people do so too.[32]
2. Every person is a moral subject, gifted with dignity and freedom – and at the same time it is an empirical being, subjected to physiological, biological, economic, etc. conditions.33

31 The understanding for this is rooted in the theoretical underpinning of the economic ethics based in the *Ökonomik* of Homann and Suchanek (2005) on the distinction between action, interaction and institutional theory (the first two in particular are relevant for this investigation). In the work of Homann earlier and Suchanek later, action and interaction theory have a precise meaning which differentiates them from other action or interaction theories developed in the literature. Action theory analyzes allocation decisions taken by *single* actors and is inspired by rational choice theory; interaction theory is based on game theory and analyzes mainly strategic decisions and interdependences in the decisions of *multiple* actors.

32 Suchanek refers here to the "fact of pluralism," described for instance by John Rawls and summarized in Suchanek (2007, p. 22) as: "the fact that for modern societies it is ineluctable that at least since religion wars there is no more comprehensive religious, philosophical or moral conception ("conception of good") that is recognized universally and from which legitimation for social institutions could be derived."

33 An appreciation of Kant's position on human dignity and freedom, and the ability to act morally – coupled with the acknowledgement that in the empirical world empirical beings are subject to limitations.

3. You constantly influence your conditions for future actions – and the conditions of others.34
4. Reasonable – and responsible – is a use of the own freedom which conserves and possibly improves the conditions for the future usage of freedom.35
5. Among the most important of these conditions are integrity, trust, (good) institutions – all of which can therefore be seen as assets which require investments and make them worthwhile.
6. Invest in the conditions of cooperation for mutual advantage!

The last statement coincides with the definition of responsibility used in this framework – a revisiting of the Golden Rule. Before fully discussing the definition of responsibility set as basis of this work, the theoretical foundation of the theory and the main instruments it uses to conceptualize problems and solutions are explained: the prisoner's dilemma, trust and institutional arrangements, and how they connect.

2.3 Theoretical Foundation: Origin of Conflicts and Opportunities for Solutions

2.3.1 Prisoner's dilemma

Economic ethics has its starting point in interactions among actors, cooperation gains and functional conflicts, and the reflection about the usage of freedom. A particular type of conflict is set as the corner stone of the theory because of the heuristic value it bears in guiding ethical reflection, namely the "prisoner's dilemma" from game theory.

Economic ethics follows a fruitful and rather recent tradition in ethics and uses simplified models from game theory to test relationships among actors, effect of incentives, and robustness of rules and interventions.[36] While it is not an anthropological model on what constitutes individuals and how they act, or how they should act, prisoner's dilemma is a heuristically effective way of modelling interactions and testing their outcomes.

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34 Differently from natural sciences, whose objects are not supposed to change their reaction or influence future movements, actors do react to conditions and therefore ethics as a discipline has also to do with changing and influencing future conditions, and with the way in which actors do this (see also Homann and Suchanek, 2005, p. 352).

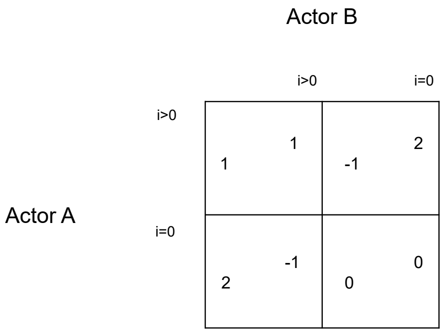
35 See Section 2.4 on responsibility.

36 See for instance Verbeek and Morris (2010) for an overview of the different usages of game-theory concepts in ethics disciplines.

In prisoner's dilemma, the following situation is constructed: two actors are presented with two different options, namely to cooperate or not to cooperate.[37] Actors are assumed to be rational, they cannot communicate and did not have the opportunity to discuss and agree on their behaviors beforehand. There is no future interaction.

The option of cooperation is conceptualized as an investment (i) in the situation; if the investment is greater than zero (i>0), then the actor is cooperating. Game theory provides the following visualization.

Figure 1: Visualization of prisoner's dilemma



Source: Adapted from Suchanek (2007)

The visual is to be read as follows: each player in this game, i.e. each actor,[38] has two options, each with two payouts, i.e. benefits (the numbers). Depending on the combination of alternatives (one actor invests and the other does not; both actors invest; both actors do not invest), different payouts for each of the actors can be achieved.[39] Behavior is supposed to be strategic, namely each of the two actors will consider the options and the probable behavior of the other one before taking her decision. They behave strategically and neither of them

37 Prisoner's dilemma is only one of many games analyzed in game theory.

38 Actors are prisoners in the original game-theory model. In the context of this investigation actors can be individuals or companies.

39 For instance, if both actors invest (i>0), they will both have a payout of 1 each (1, 1). If one of them invests and the other does not, the payouts will be respectively -1 and 2 (-1, 2). If none of them invests (i=0), the payouts are 0 for both (0, 0). The highest aggregate payout is achieved in the first case (1+1=2), while the other alternatives lead to lower aggregate payouts (-1+2=1; 0+0=0).

has the possibility to decide alone the result of the interaction (there are always behavioral interdependencies, Homann, 2000a, p. 95–96).[40]

Given that actors do not know what the other will do (because communication is not allowed in this type of game) and that each of them assumes the other will try to maximize her benefit (because actors are rational), both can figure out that the best option under given conditions is to not cooperate (i=0). This behavior of not collaboration is called "defecting" and is the dominant strategy, namely the strategy to which both actors are led due to the payout structure and the absence of possible communication and coordination. The alternative strategy – cooperating in the hope that the other will do the same – would put them at risk of reaching a lower payout because they cannot control the decision of the other and would be exposed to potentially opportunistic behavior.

The fact that the two cannot coordinate the behavior means, translated in more concrete terms, that they do not know what the other will do, and that they have reason to believe and expect that the other will choose the dominant strategy and not collaborate. Why should actors behave differently (and not defect), in the end?

They should if they could know that the other would commit to cooperation and not exploit the investment of the first actor. This is excluded by the specific construction of the game situation. Under given conditions thus – the payouts in the matrix – collaboration is not hindered by the disposition or motivation of the actors, but by the structure of the situation itself (Suchanek, 2007, p. 56).

The next section discusses the value of prisoner's dilemma for ethical reflection, in particular for the aspect of implementation and implementability of ethical requests.

2.3.2 Epistemological status of prisoner's dilemma and its relevance for ethics

The model displayed above is an adaptation from game-theory for ethical purposes. The goal of the conceptualization is to provide a model, or a scheme, for analyzing social interactions from the perspective of their actors and dependencies. The model thus works as a heuristic to investigate in a methodically-

40 This refers also to the difference between strategic and parametric behavior, as described for instance in Homann and Suchanek (2005, p. 80), or Verbeek and Morris (2010). While in the first type of behavior actors take decisions irrespective of the behavior of other elements, and the decisions taken do not have impact on these other elements (the decision of taking an umbrella while leaving the house does not impact the probability of raining), in strategic behaviors actors do act and react based on the expectations of what others will do.

controlled way the institutions and conditions of actions, but does not represent a description of how people really behave, or should behave (Homann, 2000a, p. 95).

Depending on the type of problem investigated, dilemma structures based on the prisoner's dilemma can always be constructed and used to search for solutions, cooperation gains and cooperation strategies. Dilemma structures exist in the theoretical reduction of the situation to a constellation which can be treated with the instruments of the theory, but do not represent an empirically precise description of reality. The creation of a dilemma structure is problem-dependent and solution-driven. Sometimes the analysis starts with a dilemma in the past, which has been solved through specific arrangements; the analysis can also start with a dilemma in the present and be used to identify possible solution opportunities. In no case however is the dilemma arbitrarily constructed. There are always empirical circumstances which justify its construction and which become more transparent by using dilemmas as epistemic lenses (Homann & Suchanek, 2005, p. 363).

The following items show why dilemma structures have such relevance within ethical reflection to be used as guiding principles in investigating problems. The items all refer to the heuristic value of discovering interests, conflicts, and the impact of institutions and conditions on the behavior of actors.

1. The model of dilemma structures depicts one fundamental behavioral dynamics: that the possibility of opportunism and exploitation leads to preventive defense as a consequence of behavioral expectations. Each actor in prisoner's dilemma can expect that the other will take the opportunity to exploit their investment, and as a reaction – even before the other has the chance to put in practice the opportunism – the defensive move (the dominant strategy, the non-collaboration, the non-investment) has been implemented.
2. There is a result which would put both actors better off, the one in which they cooperate with each other and do not defect. However, under given conditions and with each actor behaving rationally, that better collective result cannot be achieved.41 The cooperation gain is not realized.
3. Each of the two actors has only limited control of the situation, and achieving the higher collective gain is possible only if both cooperate. One actor alone cannot achieve complete control and determine the result by herself: a coordination of efforts is needed.
4. The dilemma structure allows distinguishing between moves and rules of the game. The latter are the limits of the game and the interplay of strategies and payouts given, which create the space for the actors to play their

41 Technically, the better result is called pareto-superior (Homann & Suchanek, 2005, p. 34).

moves, choosing from available alternatives. Using this vocabulary, it can be said that in the prisoner's dilemma the rules of the game are such that the moves can only lead to suboptimal results.
5. Using a dilemma structure such as prisoner's dilemma helps searching for converging interests and not seeing the conflict as a pure zero-sum game. Homann and Suchanek (2005, p. 89) highlight that "by modelling the problem as a dilemma structure we can achieve the same knowledge value as by modelling the problem in the form of a zero-sum game. In both models it becomes evident why conflicting interests lead to the observed behavior. However, modelling as a dilemma structure has the advantage of showing at the same time common interests and potential cooperation gains linked to them" (emphasis in original).

The fundamental learning from the interaction situation in prisoner's dilemma for ethics is to show that under certain conditions the situation structure has an impact on how decisions are made, and that potential cooperation gains might remain unrealized if single actors are not coordinated in their behaviors. Under such conditions and structures as in prisoner's dilemma, no appeal to good will or motivation can allow the achievement of the higher collective benefit, because this achievement would require actors to act against existing incentives (namely, payouts).

While this section displayed fundamental elements in the diagnosis of conflict situations, the next section discusses elements for possible solutions.

2.3.3 Possible solutions: Trust and rules

Research has identified two possible leverages for solving dilemma situations in a desirable manner: (1) via trust, or (2) via institutional arrangements. Both solutions act in the same way: they change the payouts of the prisoner's dilemma by making the preferred behavior more appealing/less costly, and by making the undesirable behavior (for instance, defection) more costly or risky.

In economic language, trust works by lowering transaction costs, i.e. costs associated with performing transactions (in this case, in particular the risk of being exposed to opportunistic behavior; Suchanek, 2007, p. 73). Trust provides information and signals about the potential future behavior of the partner in the game, thus informing the second partner that there is room for cooperation and upfront investment with a low risk of being exploited. In the game of trust, a trustee signals her ability to be trusted by undertaking possible activities. However, it is in the role of the other actor – the trustor – to decide whether or not based on given evidence the first actor really deserves this option. It is in a triangle of signals, interpretation and delivery of the promise given that trust can be created and used to facilitate transactions and interactions in general (Suchanek, 2012).[42]

Suchanek (2012, p. 3) further identifies three elements to support trust development among actors as a responsible way of acting: (1) ability (the ability itself to perform actions reliably), (2) non-opportunism ("for cooperative relationships, the most relevant aspect of trust is the willingness and ability to resist situational temptations for abusing that trust"), and (3) righteousness (avoiding to harm others).

The other elements available to improve interactions are institutions and institutional arrangements. They work by steering behaviors in a certain way, providing incentives (rather than signals) to change habits.[43] Good institutions help automate behaviors and create new habits which favor and support better collective results, helping to overcome the prisoner's dilemma or other forms of conflicts. Institutions are therefore defined as "standardized solutions to dilemma-driven interaction problems" (Suchanek, 2007, p. 63). Institutions reduce individual freedom in order to create new possibilities that otherwise would not be implementable. In this sense, freedom is reduced (short-term) to be enlarged (long-term). Institutions can help reduce the appeal of reaching out to the fruits of immediate freedom to support achieving a higher collective benefit (Homann & Suchanek, 2005).

The two levers of trust and rules are not mutually exclusive. Trust is a fundamental element to support and stabilize institutions – in particular the good ones which promote higher collective gains and do not arbitrarily reduce actor's freedom.[44] Conversely, (good) institutions support the creation of trust and of a track record of successful interactions, by nurturing a shared mental model/shared understanding of the game – the expectation that the other partner will honor her part of the promise.[45]

42 The trust game takes the form of an asymmetrical dilemma situation, where the successful interaction depends on the first actor investing upfront, and the second one honoring that investment and not exploiting it. This type of game is described in greater detail in Chapter 5.

43 See Homann and Suchanek (2005) for more details about institutions and incentives.

44 See for instance Homann and Suchanek (2005, p. 105 ff.) on the complex relationship between trust, institutions, information and trustworthiness. Among the vast literature on institutions, their positive or negative effects, and social capital, see for instance Acemoglu and Robinson (2012); Putnam (1994).

45 None of the two solutions (trust, institutions) comes for free though: there are information and transaction costs involved in signaling trust or in changing institutions, and the solutions must be appealing from a cost-opportunity perspective otherwise actors would not change their behavior. This is because the payouts are a strong incentive for actors to behave in a certain way, and these payouts – which are the reason why the conflict is there in the first place – are not easy to be overcome and changed.

The dilemma structure showed above and its implications constitute the basis of economic ethics in its pursuit to reflect and give implementable indications on how to deal with freedom and how to structure the social order.[46]

2.3.4 Productive and destructive conflicts

Economic ethics considers conflicts in the strategies and the interests pursued by actors. From a societal perspective, not all conflicts are to be solved but rather a distinction has to be drawn between productive and destructive conflicts. The former are societally welcome and beneficial, the latter are not.[47]

Conflicts happening in a business and economic context are considered. These conflicts are defined as existing *on the same side* of the market – in this sense competition is the paramount example of conflict among producers or developers to provide the customer with a product or service (Homann & Suchanek, 2005, p. 145 ff.). The two producers are on the same side of the market, the conflict is between them to provide superior value to the customer and can be constructed as a continuously unsolved and repeated prisoner's dilemma. Under conditions of competition, conflicts are assumed to be positive in that they have a socially welcome function of discovery (*Entdeckungsfunktion*) and of value creation, and consumers benefit from the rivalry.

Prisoner's dilemma does not have to be solved always under all circumstances thus. There is a difference between the aggregate payout in the prisoner's dilemma matrix and the social benefit: sometimes they coincide, and sometimes they do not. In the latter case, a higher benefit achieved between the two actors (the cooperation gain potentially achieved in the prisoner's dilemma situation) implies a damage to third parties (in society at large). Other conflicts are socially unwelcome because they are intrinsically unproductive and dysfunctional to society. From an economic perspective competition qualifies as a conflict in the first category, and is welcome in its positive and desirable effects (*Leistungswettbewerb*), under the condition of a legal and institutional, functioning framework. From this also follows that one dimension of ethical decisions on macro level relates to the decision of where there should be conflicts, and where not – where competition (keep the dilemma structure) is welcome,

46 Karl Homann has worked out the relevance of dilemma structure as the figure to understand modifications in modern, functionally differentiated society, and its pertinence for ethics and ethical reasoning. Among the literature available, see for instance Homann and Blome-Drees (1992, p. 29, 34–35) and Homann (1999).

47 Similarly, as showed later, not all cooperation to solve a dilemma structure is welcome, but only when it is functional and conducive for society at large, i.e. if the cooperation gain realized does not damage third parties.

and where cooperation (solve the dilemma structure) is preferable.[48] Poignantly put (Homann & Suchanek, 2005, p. 145), dilemma structures are normatively *ambivalent*.

2.4 Responsibility: Definition and Implications

The discussion of dilemma structures in the previous section shows that individuals cannot solve dilemma situations alone, because they are placed in an interaction with a certain (incentive) structure. What is then the contribution of actors to these interactions, and in what terms is it possible to speak about responsibility, if everything is already set in the constellation of the game?

It is possible because due to open institutions and contracts there is always a more or less marginal space for ethics. Economics and management are not deterministic processes and sciences, but include the possibility of interactions being shaped differently – of being managed, to a certain extent and in which future conditions of action are constantly created.[49]

The definition of responsibility used in economic ethics literature takes the form of a Golden Rule with reference to the conflict situations described in the previous section.[50] What should a responsible actor do when she finds herself in a conflict situation – how should she use her freedom? The Golden Rule indicates how to use those spaces by taking the form of the following imperative:

Invest in the social cooperation for mutual advantage!

Based on what illustrated before and on this rule, responsibility becomes the duty to transform the socially unproductive conflict in a positive one (competition), or in resolving it to achieve a shared gain (cooperation) – depending on the situation, and by investing in the conditions. In both cases, through responsible behavior (i.e. investment) a higher benefit can be achieved than by not investing.

There are certain conditions which can be supported and which are conducive to support the transformation of the socially undesirable conflict in a cooperation form, or in a socially functional conflict. Conditions, even more than the

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48 See for instance Will (2012) and the distinction between socially desirable cooperation and competition, and socially *un*desirable cooperation and competition. For instance, cartels are an example of undesirable cooperation.

49 It is reminded here again of the *to explain in order to design* principle – designing (differently) is always possible.

50 The Golden Rule is a moral principle to be found in several cultures and times. Its basic logic has to do with reciprocity and an example is the biblical maxim that one shall love the neighbor as oneself (Suchanek, 2007, p. 13).

action itself, are the ethically relevant part. To not undermine these conditions, but rather to invest and support them, is the ethical aspiration.

The conditions in which companies can invest are the conditions which delimit and limit their action potential and which create situations like the ones described with the prisoner's dilemma. Examples of conditions are diverse and can include: natural laws, climate, biological, physiological and the psychological nature of individuals; technology and technology constraints; market and competition structures; values and priorities; and trust and cultural frames (Suchanek, 2007, p. 43–44). In any given situation, they all contribute to creating the set of "relevant alternatives" that actors can choose from.

While some of the conditions are not under the control of actors (e.g., natural laws), other conditions can be changed so that future interactions progress more smoothly toward higher collective result. These are several examples of conditions in which actors can invest: trust, social capital, human capital, fair competition, institutions and their proper functioning. These and other, similar types of assets are intangible elements which help interactions being shaped into the form of a win-win scenario by supporting conditions in the future. To invest in such assets and support, rather than destroy through exploitation, is the content of responsibility according to the economic ethics. Once such conditions are identified, there are different ways of investing in it in an incentive-compatible way.

Depending on the type of conflict and dilemma structure, Suchanek (2007, p. 137) identifies different types of investments, such as in the product, in the productivity of employees, in integrity, in relations with other actors, in conditions of competition at a certain location, in the framework of competition and similar forms. They are all investments in cooperation and therefore realization of responsibility.

The investment itself needs to be incentive-compatible and the alignment of interests can be pursued in different ways.[51] In the case of dilemma situations, there are two types of solutions through coordination which are theoretically and ethically more relevant, namely individual and collective self-binding (Homann & Suchanek, 2005, p. 82, 258 ff.). Self-binding as an institutional arrangement means to limit the alternatives existing for an actor and in particular to limit and signal to the outside that one is ready not to pursue the option of exploiting (if this signaling was possible in the prisoner's dilemma and undertaken by both actors, the higher collective benefit could be achieved). The commitment can be an *individual* investment in cooperation done by only one actor toward another which can be exploited (i.e. a case of so-called asymmet-

51 Investments in trust are for instance welcome and are a realization of the Golden Rule. However, such investments have to be organized (*arranged*) in an incentive-compatible manner to be implementable.

rical dilemma structure, see Chapter 5), or it can be a *collective* commitment of several actors who by doing so are able to go beyond an undesired dilemma situation. Both types of binding commitments are illustrated further in Chapter 5, together with empirical examples from the context of this investigation.

The economic ethics of Andreas Suchanek allows for an organization of ethics at the level of the enterprise, conceptualized as both a corporate actor (*korporativer Akteur*) and as a societal institution (*gesellschaftliche Institution*). It is because of their institutional role in society and the public acceptance which must receive to be licensed to operate that companies can be attributed responsibility for the system that allows their very existence and success: responsibility for the structure of competition and its conditions.

With a focus on enterprise's role, the Golden Rule looks in particular at the conditions (and maintenance) of competition and of the functioning economic system, where companies can contribute by value creation. In this sense, the Golden Rule can be reformulated as the request to contribute in maintaining the license to operate, to maintain and not worsen the conditions for competition, and thus contribute to fair value creation.

The next section shows how this framework can be translated in a specific, concrete context within labor and training markets.

2.5 Problem and Research Question in Categories of the Economic Ethics

This investigation looks at corporate responsibility in a labor market context and at how companies can support conditions of cooperation for mutual advantage, with a particular focus on the implementability aspect. In this section, the problems stated under Chapter 1 are reformulated in categories of the economic ethics.

Starting point is the observation of two ethical implications of current trends in the labor market (Section 1.5). Such implications are the structural exclusion of certain groups from access to employability support and training, and the reduction of trust and endangerment of license to operate that companies experience due to instable employment situations and outlooks for the individuals involved.

Even if employability seems to be a win-win situation which can improve conditions for future actions in organizations and in the labor market, and trust in the system and for employees (Section 1.3), not all companies and actors embrace this strategy and invest in employability and training. Rather, they arguably behave in the opposite way, perpetuating reduced employability and instability in employment.

Due to the long and fragmented chains in the provision of training (Section 1.2) there are several instances of interactions, strategic dependencies and possible dilemma situations – with conflicting and converging interests. Employers and employees experience incentives and disincentives steering them in different directions, and there is an issue of diffuse responsibility which results in lack of leadership and coordination. Additional issues are related to the difficulty of quantifying returns on training, effects and transfer of learning instances, and also of understanding *prima facie* the quality (quality uncertainty). Other issues are brought about by asset specificity: the investment in a certain type of skills or of organization is not to be transferred one-to-one to another context, increasing the transaction costs (losses) involved in the case of change. The economic rationality of choosing investments and their features, and the pedagogical/learning rationality might be at odds in some cases; in the course of the analysis, these elements and categories (which can be found in the interaction theory) guide the understanding of the underlying reasons of empirical conditions which are in the way of ethics.

At the level of "moves of the game," that is, within the spaces of action and discretionary power delimited by the existing institutions and rules, actors involved are enterprises with the decisions they make when allocating their resources.[52] Resources are limited, returns are uncertain, and a choice must be made among possible HR alternatives. Following the economic ethics, decisions on this level are made based on rationality and on maximizing utility within the range of conditions given and the alternatives that companies have, reacting to incentives and trying to understand how other actors (for instance, employees or other companies) might strategically react and behave. From a theoretical perspective, the problem is approached both with rational choice theory and with interaction theory because it analyzes the moves of the game – both those which are independent from others and those which demonstrate a strategic dependency.[53]

In addition to the moves of the game, there is the level of institutions and institutional arrangements which create the "rules of the game." Such rules-setting institutions are understood and analyzed, within the context of this investigation, as the norms and institutions which steer behaviors and decisions through incentives and disincentives. In Western-European economies (and in particular – as showed later – for the geographical focus considered here), and for the specific topic of human capital and training, the level of rules and institutions translates first of all into policies which organize and support the provi-

52 For moves and rules of the game see earlier in this chapter.
53 Homann and Suchanek (2005). See Footnote 31, on action and interaction theory.

sion of training.[54] For example, they can be schemes that pay for training, schemes that deduct taxes from training expenses, or specific allowance for training leave. While all these elements create the boundaries within which action can take place (the rules of the game), the discussion earlier in this chapter shows that because of the openness of contracts and institutions a more or less large residual space for ethics (i.e., decision) is always present.

Proceeding from this context and elements, the prisoner's dilemma is used as the main heuristic instrument to approach the responsibility question. Among the possible conflicts and actors there are not only potential misalignments of interests and threats, but also cooperation gains and potential benefits. Chapter 3 discusses in detail the methodology followed and the instruments applied to clarify what these cooperation gains are and how they can be realized.

54 I.e. they provide incentives or disincentives, benefits and sanctions depending on the type of training and population segment supported.

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