Contributions from the Civil Economy Theory to the argumentation of CSR

El aporte de la Teoría de la Economía Civil a la argumentación de la RSE

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Abstract

In spite the growing legitimacy of Corporate Social Responsibility (CSR), its theoretical argumentation presents great weaknesses. These weaknesses are explained, in part, because the argument is not based on a framework of economic theory, alternative to Neoclassical Economics, whose postulates and ideas support the main criticisms of the existence of CSR. The concept of CSR contradicts ideas such as: the end of the company consists exclusively on maximizing profits, the economic sphere is independent of the social sphere, the market is morally neutral, and economic relations are based exclusively in equivalent exchange without allowing reciprocity. This article argues that the school of Civil Economy provides a theoretical framework from which it is possible to respond to these criticisms and offer an argument for CSR based on its theories. The document was constructed using a bibliographic review and theoretical reflection by the author. It identifies five dimensions that characterize the concept of CSR. It then analyzes the neoclassical arguments that invalidate those dimensions. Finally, it presents the arguments from Civil Economy that legitimize.

Resumen

Pese a la creciente legitimidad que está adquiriendo la Responsabilidad Social Empresarial (RSE), la argumentación teórica de esa legitimidad presenta fuertes debilidades. Estas debilidades se explican, en parte, porque esa argumentación no está basada en un marco de teoría económica alternativo a la Economía Neoclásica, en cuyos postulados e ideas se apoyan las principales críticas a la existencia de la RSE. Para esta escuela el concepto de RSE entra en contradicción con ideas como la que el fin de la empresa consiste exclusivamente en la maximización de los beneficios, la esfera económica es independiente de la social, el mercado es moralmente neutro y que las relaciones económicas se basan exclusivamente en el intercambio de equivalentes sin dejar espacio para la reciprocidad. El presente artículo tiene la intención de argumentar que la escuela denominada «Economía Civil» aporta un marco teórico desde el cual es posible responder a esas críticas y ofrecer una argumentación de la RSE basada en esa teoría. El documento fue construido mediante revisión bibliográfica y reflexión teórica del autor. Se identifican cuatro dimensiones que caracterizan el concepto de RSE, luego se analizan los argumentos neoclásicos que invalidan esas dimensiones y finalmente, se exponen los argumentos de la Economía Civil que los legitiman.

Keywords | palabras clave
Civil Economy, Neoclassical Economy, Corporate Social Responsibility, stakeholder, externalities, ethics.

1. Introduction

Although CSR currently has a significant degree of legitimacy in the corporate world and is an issue that occupies a relevant place in academic research, there are still strong criticisms of this concept that its supporters have not been able to refute in a clear and convincing way, in particular, the criticisms that come from the school of Neoclassical Economics.

If we analyze the most important international documents on CSR (such as the European Union Green Paper, the United Nations Global Compact or the ISO 26,000 guide) and the various theoretical elaborations on this concept, it is possible to conclude that they do not propose a foundation of economic theory for CSR or, if it is done, the foundation is formulated within the framework of the main concepts of the neoclassical theory of economics. It happens if the way in which the main problems that this concept involves are analyzed in detail: the management of negative externalities of companies, the relationship with stakeholders, ethical behavior in business, the involvement of the company in the solution of social problems or the creation of shared value. It is also likely that this explains the supremacy of an instrumental type of foundation, in which the need for CSR is proposed as an adaptive response of the company to a new environment or as a pragmatic and instrumental strategy aimed at profitability, more that as a new philosophical vision—fundamentally of a moral nature—about the role of the company in society.

The problem is that the concept of CSR involves a deep questioning of the dominant economic theory, although its proponents are not aware of it. This is the main cause that explains the difficulty that the promoters of CSR have to refute the arguments against this business philosophy, most of which are formulated from the perspective of neoclassical economic thinking, where a famous article by Milton Friedman stands out (1970). In addition, since the 1990s academic production on CSR practically abandoned theoretical reflection to give priority to the publication of results of empirical research, as pointed out by Carroll (1999). This is also demonstrated by the fact that the new definitions on CSR proposed in the twentieth century come from institutional documents, such as the Green Paper of the European Union or the ISO 26,000 Guide. This situation, which still persists, implied a de facto abandonment of the theoretical discussion regarding the economic foundations of CSR.

Hence, the need to look for a framework of economic theory, based on postulates different from neoclassic and that are consistent with the concept of CSR. This article argues that this framework is found in the school called «Civil Economy». The central objective of this article is to identify and analyze the contributions of this school to the theoretical foundation of CSR. The article identifies five dimensions that make up the modern concept of CSR, analyzes the logical inconsistency between these dimensions and the postulates of neoclassical economy and, finally, describes the theoretical elements of Civil Economy that give a foundation of economic theory to these dimensions of CSR.

2. The dimensions of the CSR concept

The analysis of the literature (academic and non-academic) on CSR in the last sixty years reveals the existence of a lot of contributions on this topic and, particularly, on
the definition of the concept, as presented by Carroll (1999), Garriga & Melé (2004), Dahlsrud (2008) and Carroll (2015). In the second decade of the 21st century, this conceptual diversity seems to have converged into a definition that has broad consensus, both at the academic level and at the level of the institutional actors interested in promoting CSR (for example: UN, OECD, European Union). This consensus revolves around the definition and main ideas on Social Responsibility established in the ISO 26,000 Guide, which defines it as «the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior» (ISO, 2011, p.106). In addition, this document states that the adoption of CSR results from a voluntary choice, is incorporated into the entire operation of the company and assumes compliance with local and international laws.

The review of the literature suggests that it is a complex and multidimensional concept, as evidenced by Carroll (2015), who analyzes the commonalities and overlaps between CSR and five other concepts: Theory of Shared Value, Theory of Stakeholders, Corporate Citizenship, Business Ethics and Sustainability. The review of the literature on CSR of the last sixty years highlights that this concept includes at least five dimensions: 1) responsible management of the impacts (externalities) of business activity on stakeholders, society and the environment; 2) the incorporation of stakeholders’ interests and demands and the creation of shared value; 3) act ethically; 4) get involved in the solution of social and environmental problems of the community where the company operates, and 5) contribute to sustainable development.

The impact management of productive and commercial operation constitutes the main core of the definition of CSR proposed in the ISO 26,000 Guide. Davis & Blomström (1966) suggested the idea that companies should consider how their activity affects other actors. Fitch (1976) defined CSR as the attempt to solve the social problems that generate. Frederick et al. (1992) proposed that companies should be responsible for the effects of any of their actions in their community and the environment. The European Union affirmed that in order to fully exercise its social responsibility, the company must «identify, prevent and mitigate its possible adverse consequences» (Commission of the European Communities, 2011, p.7). More recently, Carroll (2015) observed that social responsible management of impacts covers two dimensions: on the one hand, to «protect» society from negative impacts and on the other, to contribute to «improve» the conditions of society through deliberately sought positive impacts. Similarly, Wymer & Rundle-thiele (2017), affirm that CSR is a notion through which organizations assume responsibility for the impact of their activities on a wide variety of stakeholders.

Johnson (1971) stated that social responsible company balances the interests of multiple actors, including employees, suppliers and local communities. Jones (1980, p. 59) associated CSR with the idea that companies have obligations with their stakeholders beyond what is established in laws and contracts. Evan & Freeman (1993) proposed that the true goal of the company is to serve as a vehicle to coordinate the interests of stakeholders. Likewise, Garriga and Melé (2004) argued that CSR requires balancing the interests of shareholders with the legitimate interests of all stakeholders. At the beginning of the 2000s, the concept of CSR began to be associated with the idea that the company must generate social and environmental value, in addition to
doing so with economic value. This was called the «triple bottom line» approach (Van Marrewijk, 2001, Commission of the European Communities, 2002). Porter & Kramer (2011) proposed the concept of «shared value», which the Commission of the European Communities (2011) endorsed by stating that CSR implies that the purpose of business is to maximize the value shared with stakeholders and with the society.

McGuire (1963) included acting with «justice» among the components of CSR. Keith Davis (1967) argued that the essence of CSR stems from concern for the ethical consequences of actions that can affect the interests of others. Zenisek (1979) proposed a model of social responsibility based on the relationship between business ethics and the expectations of society. Carroll (1991) argued that socially responsible company strives to make a profit, act ethically and be a good corporate citizen. Epstein (2006) noted that social responsibility and ethics address issues and concerns that are closely related and even overlapping. Hopkings (1998) stated that CSR is related to treating stakeholders ethically. WBCSD (2000) defined CSR as the continuous commitment of companies to act ethically and contribute to economic development. According to Carroll (2015), in the second decade of the 21st century, the concept of Business Ethics was part of the CSR concept.

Eilbert & Parket (1973) proposed that CSR is a commitment of the company with the solution of various social and environmental problems, including pollution and racial discrimination. According to Matten et al. (2003) companies should be involved in solving these problems due to the increasing difficulties of States to do so. The definition of CSR proposed in the European Union’s Green Paper establishes that CSR is the «voluntary integration by companies of social and environmental concerns in their commercial operations, and their relations with their stakeholders» (European Commission, 2001, p.7). There is a wide diversity of theoretical proposals on business commitment with the solution of these problems, ranging from purely philanthropic to those involving the productive and commercial activity of companies, as is the case of the so-called «Businesses at the Base of the Pyramid» (Prahalad & Hart, 2002).

The relationship between Sustainable Development and CSR began to be considered at the end of the 1990s, but it gained strength after the publication of the European Union Green Paper, which calls on European companies to have a sense of responsibility in relation to various issues, including sustainable development (Commission of the European Communities, 2001). The issue is present in the United Nations Global Compact of 1999 and is more clearly set out in the Sustainable Development Goals (SDGs) recently proposed by this organization. WBCSD (1999) defined CSR as the «commitment of companies to contribute to sustainable economic development by working with employees, their families, the local community and society in general to improve their quality of life».

There is also a more or less generalized consensus that CSR is located at the strategic level and even at the level of business philosophy, having overcome the first versions of the concept that confused it with philanthropy or reduced it to a set of targeted marketing tactics for the strengthening of a brand and the construction of corporate reputation. That is, CSR begins to be considered as a way of understanding the relationship between the company and its stakeholders (customers, employees, suppliers, investors, neighbors, etc.), society in general and the environment. Like all
philosophy, CSR is based on principles, values, a concept of man (anthropology) and its relationship with other men and nature, as well as an idea about the relationship between economy and society. Therefore, behind the discourse of CSR it is possible to find different convictions about each of these topics. The problem is that most of the creators of these ideas are not aware of these theoretical and philosophical implications and, therefore, they are not explicit in their discourse.

3. The postulates of the Neoclassical School and CSR

The neoclassical criticism of CSR is based on a set of assumptions and postulates that include pseudo-scientific truths and assertions of a normative nature, as well as their respective logical inferences. These assumptions and postulates invalidate the five dimensions of CSR identified above, as explained below and illustrated in the second column of table 1. A classic text by Milton Friedman (1970), in which he argues that the only social responsibility of the company is to generate profitability for its shareholders with the only limitation being compliance with the law and respect for certain moral conventions, seems to have marked the agenda of the debate on the legitimacy of CSR. For Friedman (1970) it is necessary to separate economic ends from social ends. These are specific to entrepreneurs as individuals and, therefore, contributions to society must be made individually and separately from the business. The company has exclusively an economic purpose, and the economic is independent of the social. In line with Friedman, Steinberg (2000) argues that the company is not intended to promote the public good, which contradicts with many of the dimensions of CSR. On the other hand, Peter (2004) points out that, from a neoclassical approach, legitimation in the market is automatic, breaking down all the arguments of some supporters of CSR who maintain that socially responsible behavior and the incorporation of ethics are necessary conditions to generate such legitimation. In addition, among the postulates of this school is the idea that economic relations are impersonal and morally neutral, which is clearly in contradiction with the ethical dimension of CSR.

To the extent that the purpose of the company is to maximize profits, relations with stakeholders are reduced to transactions based exclusively on the exchange principle of equivalents governed by the contract. According to this principle, once the contract is agreed upon, the parties cease to be free and the only thing that makes sense is that each one of them complies with what corresponds to them, this being their only responsibility. It is easy to infer that, if economic relations are reduced exclusively to the exchange of equivalents, it no longer makes sense for the company to minimize externalities or contemplate the expectations of stakeholders that are not included in contracts or laws. Hence, any argument of CSR must go beyond the exchange of equivalents and introduce reciprocity relationships between the parties in the economy.
Table 1. The postulates of the Neoclassical Economy and the CSR dimensions

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Neoclassical thinking also postulates that the economic sphere is independent of the social, and that the only scope of action of the company is the economic. The company as an institution pursues only economic purposes. Hence, within the framework of the neoclassical perspective, concepts such as «social value», «shared value» or «triple bottom line» are contradictory with the functioning of markets and, therefore, contrary to business purposes. Consequently, the dimension of CSR to incorporating social and environmental considerations into business management is not valid. And, in particular everything related to the contribution of the company to sustainable development, active participation in the communities, the fight against poverty, the protection of Human Rights and the care of the environment.

Another implicit postulate of neoclassical thought affirms that the economy—and, therefore, the company—deals exclusively with private goods, leaving the management of public goods (res publica) and common goods (commons) to the State and society. This assumption reinforces the opposition to the idea of environmental responsibility, since it involves a special consideration of business impacts on common goods.
(such as water, air or sustainable development) or public goods (such as community infrastructure).

All of the above converges in the assertion that CSR is a private matter for entrepreneurs and managers and that, consequently, if they want to practice it, they should use their personal resources and not those of the company. While behind this statement lies a reductionism of CSR to social philanthropy, its formulation involves a direct questioning of a central idea of the concept of CSR: the one that establishes that it is not something peripheral to the business.

4. The contribution of the theory of Civil Economy to the foundation of CSR

4.1. The Civil Economy

The «School of Civil Economy» (Zamagni 2006, 2009, 2012) proposes a solution to the problem. Their anthropological assumptions and their postulates about the relationship between business and society, as well as their proposal about the ultimate goal of the company, provide a solid conceptual framework to support CSR, without having to resort to sophisticated arguments that logic easily destroys. This school supports a normative theory—ergo moral—that proposes an economy model and a type of social relations on which the person can unfold its essence and develop its relational potential. This school rebels against the determinist positions that condemn humanity to live in societies that act against the relationality of the person, those who maintain that the human is an essentially competitive being, moved by the desire to maximize his/her pleasure (the individualist philosophies), as well as those that turn human into a piece of machinery, establishing that the end of his/her life is to be at the service of that machinery (Marxism and other collectivist philosophies). While the individualist and collectivist theories do not explain their anthropological postulates and cover them with pseudo-scientific truths, «Civil Economy» not only makes them explicit, but also uses them in an explicitly transparent way to support the development of the theory.

Civil Economy refutes the selfish anthropological assumption that is at the base of the neoclassical scaffolding and states the hypothesis of the relational human. This school, which has its roots in the thought of the 18th century Italian philosopher and economist Antonio Genovesi (Bruni & Grevin, 2016), postulates that to exist, prosper and be happy, human beings need others, both in their personal lives and in their social and economic activities. According to Zamagni (2012):

The thesis according to which prosociality and reciprocity are exceptions that are explained in the light of the «natural and historical preponderance» of «self-interest» seems as extreme as the opposite thesis. In his extraordinary complexity of behavior, man can be guided by a great variety of motivations (p. 39).

Despite its normative basis, «Civil Economy» does not simply consist of a conceptual scaffolding, inferred from anthropological assumptions and dispensing a contrast with reality. Several investigations on human behavior endorse the relational hypothesis and refute the individualist hypothesis (Zamagni, 2006, Hoevel 2009, Crivelli, 2003, Axelrod, 1984, Fehr & Gachner, 2000). These investigations show that, on certain contex-
truth conditions, human beings prioritize cooperation over the maximizing competition of individual interests. In other words, «Civil Economy» proposes—in the normative sense, as a thing to be pursued—a type of economy (the civil market economy), under which the development of a society is possible—institutions, forms of relationship and coexistence—in which human beings can live consistently with their essence (as relational beings) and, moreover, empirically demonstrates that this economy is possible.

Both the individualist and relational approaches are based on normative views and beliefs about how the real world works. That is, both neoclassical and civil economists believe that human acts or tends to act in a manner consistent with his/her anthropological postulate. In addition, both find empirical evidence that support that conviction. On the one hand, the atrociously competitive and predatory behavior of many entrepreneurs seems to empirically validate the individualistic anthropological postulate. But, on the other, the multiple experiences of collaborative work in the business world do the same with the relational anthropological postulate. Now, since this postulate does not hold that people «always» act in a cooperative way—what it proposes is that the potential exists to do it—the individualist postulate assumes that human tends to maximize his/her pleasure, and that this «always» occurs in his/her economic relations.

4.2. A foundation of CSR based on the postulates of the Civil Economy

By invalidating the anthropological postulate of *homo economicus*, Civil Economy also invalidates the assumptions associated by CSR. The following describes how the relational anthropological hypothesis provides a foundation for each of the dimensions of CSR. In this way, «Civil Economy» offers its defenders a theoretical framework to refute the arguments that seek to invalidate it. These arguments are summarized in the third column of table 1.

**Responsible management of externalities.** The relational postulate establishes limits to the generation of negative externalities, since the damage that is generated to others threatens human essence. Under this postulate, and inversely to what the neoclassical approach preaches, it is morally correct to minimize negative externalities beyond legal and contractual requirements. Thus, the dimension of CSR regarding the responsible management of impacts is logically validated.

**Consider the interests of stakeholders and build shared value.** The way humans approach and practice their economic activities is conditioned by their relational nature. As a human construction, the company is an instrument at the service of the deployment of that relationality. Under this assumption, the company's main goal is the satisfaction of the material, emotional and spiritual needs of the people and the groups involved with it (its stakeholders), including the society in which it operates. The following text, taken from the *Centesimus Annus* encyclical, legitimizes the idea that the responsible company is one that builds shared value:

[...] the purpose of the company is not simply the production of benefits, but rather the very existence of the company as a community of people who, in various ways, seek the satisfaction of their basic needs and constitute a particular group at the service of the whole society (Juan Pablo II, 1998, page 67).
The neoclassical pretension of reducing economic relations exclusively to impersonal relationships based on the contract omits the relational essence of the human being. This school proposes that, in carrying out their activity, employers leave out the «non-economic» part of their nature—affection, personal values, their other motivations, etc.—and therefore, the only thing they exchange in these relationships are equivalent economic values. Conceived in this way, economic relationships leave no room for trust, commitment or affection. Instead, associated with its anthropological hypothesis, «Civil Economy» maintains that in economic relations people can not dissociate from and omit this dimension of their nature. For this reason, according to this theory, the exchange of equivalents and reciprocity coexist in these relations. The principle of reciprocity is one of the main economic categories of this school (Groppa, 2014). Reciprocity begins with an act of gratuity by one of the parties—for example: giving an additional benefit to the workers—, which seeks to trigger another behavior of reciprocity in the person receiving it—for example: more commitment of the worker with the company. The assumption behind this proposal establishes that reciprocity allows generating virtuous circles that increase the benefit of all parties. It is important to note that the «Civil Economy» does not propose reciprocity as an alternative to the exchange of equivalents. On the contrary, what this school suggests to companies is that they complement the usual and necessary relationships based on the principle of equivalence, with behavior based on reciprocity.

**Incorporate ethics.** In addition, for «Civil Economy» the market is not a morally neutral institution. What happens in it affects the lives of people and this entails a moral responsibility. The idea of CSR as responsible for the impacts of the activity assigns a moral character to business behavior. According to Zamagni (2012) the concept of CSR presupposes an «ethics of responsibility», not in the sense that Max Weber granted to this concept, but in the sense proposed by the «Theory of stakeholders». Hence, ethical behavior, based on values and competencies to resolve the innumerable ethical dilemmas faced by the managers of companies, makes up the nature of the company. In addition, the «Civil Economy» postulates the need for an «ethics of virtue» in business managers because, according to Zamagni (2012, p.198), this type of ethics is what allows «to resolve and overcome the opposition between the focus on self-interest and interest in others; between selfishness and altruism».

**Get involved in social and environmental problems.** As mentioned above, one of the criticisms of the neoclassical school of CSR is to affirm that economic activity operates autonomously in social relations. As it follows that the company pursues only economic purposes, it does not make sense to be involved in the solution of social problems. Moreover, doing so would be morally wrong, because it could lead to self-destruction. Hence, within the framework of the neoclassical perspective, concepts such as «social value», «shared value» or «triple bottom line» are contradictory with the functioning logic of markets and, consequently, contrary to business purposes. From the perspective of «Civil Economy» this postulate is rejected, because «the economic and the civil have in common the relational structure of human existence» (Zamagni, 2006, p.18). According to Bruni & Zamagni (2003, p.11), in today's globalized markets «the company is asked to be social in its normal economic activity». «Civil Economy» puts forth the idea that the end of the company is social and that therefore its commitment is
with the society. Under this approach, CSR is part of the nature of the company and not something that is added to its operation. It is for this reason that Crespo (2009, p.121) states: «It would be clearer, then, rather than speak about CSR, to speak about the responsibility of the company in society».

Contribute to sustainable development. Neoclassical thinking holds that the company should deal only with private goods. In this sense, it should not take responsibility for environmental problems or for sustainable development, since these issues refer to the commons and the Common Good. According to Zamagni (2007, p.23): «It is clear that in the horizon of (axiological) individualism there is no place for the notion of common good». However, nobody can escape the fact that the uncontrolled and irresponsible production of private goods is one of the current causes of the global environmental crisis —legitimized by the neoclassical assumption of the validity of externalizing everything not prohibited by law. Therefore, the neoclassical arguments are legitimizing the causes of this crisis; hence, are unable to provide a conceptual framework consistent with their solution. On the other hand, the «Civil Economy» proposes a conceptual framework under which the company has a role to play in the environmental crisis and the need for sustainable development, since its commitment to the Common Good derives from the relational postulate, as Zamagni argues (2007):

The common good, affirming the primacy of interpersonal relationships over their exoneration, ... of personal identity over usefulness, must be able to find a space for expression everywhere, in any field of human action, including economics and politics (p. 42).

5. Conclusions

Despite being a concept that arises within the framework of the capitalist market economy, CSR has many points of contact with «Civil Economy». As demonstrated in this document, if one carefully reads the definition proposed in the ISO 26,000 guide, it is inferred that the concept of CSR is much closer to the conceptual structure of the «Civil Economy» than to that of the Neoclassical School, provider of the moral and theoretical foundation of the capitalist version of the market economy, reason for which this article argues that «Civil Economy» provides the theoretical arguments to refute the criticisms of CSR presented by the Neoclassical school.

Within the framework of the capitalist market economy, CSR emerges as a business philosophy that promotes the adoption of behaviors aligned with the civic ethics of a civil market economy. Without intending that CSR modifies the essence of the capitalist system, the «Civil Economy» perceives it as an opportunity to generate economic behaviors that break away—albeit partially—from the limitations imposed by the rules of capitalism. Given that the evolution of humanity towards a civil economy is not guaranteed (because the proposals of Civil Economy are not deterministic), its supporters—among whom the Catholic Church stands out—adopt CSR as a business philosophy that, within the framework of the capitalist economy market allows to generate, within specific constraints, business behaviors typical of the civil economy. The following text by Zamagni synthesizes this idea:
When there are still no civil and just institutions, or when they are incomplete, the common good requires something more and something different from the correct and honest search of particular interests. Therefore, a socially responsible company is the one that helps define civic ethics... Respecting the given rules is too little, especially when those rules have to be changed; that is, when we have to overcome the Calvinist conception of capitalism [...] (Zamagni, 2012, p. 187).

Given that the company is a human work, created and directed by people, the adoption of CSR as a business philosophy depends on the will of those who direct it. If the individualistic anthropological postulate is true, entrepreneurs and business executives would tend to act in the opposite direction to that proposed by CSR and this would be no more than a beautiful utopia. However, «Civil Economy» argues the falsity of the postulate of homo economicus and of the main assumptions of neoclassical thought that invalidate CSR: the end of the company is exclusively the maximization of profits, the economic is independent of the social, the market is morally neutral, economic relations are based exclusively on equivalent exchange, etc. Similarly, «Civil Economy» contributes a foundation of philosophical anthropology (the relational nature of the human being) and economic theory to CSR, while demonstrating that, under certain circumstances, economic actors seek cooperation and tend to adopt behaviors such as those promoted by CSR.

References


