Adam Smith’s Contribution to Business Ethics, Then and Now

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ABSTRACT

Smith defines the business enterprise primarily as the endeavor of an individual who remains fully embedded in the broader society and subject to its moral demands. For him, the conceptions of the local community and its normative framework, of the enterprise, and of the individuals within it need to be aligned with each other and developed together.

Over time, four processes have however led to a widening gap between the business world and the local community. These are (1) the dissemination of the corporate model, (2) the transformation of the entrepreneurial role toward an agency role, (3) changes in the ownership structure, and (4) changes in the relation to the local community.

This article presents Smith's integrative conception of business and its contributions to the development of integrative theories of organizations and of business-society relations in the 21st century. Among others, it discusses the necessity to develop a normative-relational dimension of organizations that addresses the relations between the organization, its members (e.g., owners and managers), and the normative framework of the local community. This integrative approach of business-society relations challenges current business ethics research which often suggests that solutions to the current scandals lie either within the framework, the organization, or the individuals.

Keywords: Adam Smith, Business and Society, (Dis-)Embeddedness, Self-Interest, Social Enterprise
**List of Abbreviations**

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<td>CSR</td>
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INTRODUCTION

Many founding fathers in business theory enshrine economics in a holistic conception of society and its moral expectations (see e.g., Pareto, 1971 [1906]). For instance, Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* (hereafter WN, 1976 [1776]-a, b) embeds business actors in a broader societal framework which is further developed in his other main work, the *Theory of Moral Sentiments* (hereafter TMS, 1984 [1759]). In this second work, he exposes how the broader societal framework serves as a moral compass and defines the proper sentiments that should guide community members in all activities, including work (see Hanley, 2009; Sen, 2010; Werhane, 1991).

Smith’s complex discussion of the relations between economic objectives and societal constraints is however often neglected, and his contribution reduced to a plea for free trade economics (e.g., Coase, 1992; Friedman, 1970; see critically Gonin et al., 2012; Gramm, 1980). The paucity of references to Smith in articles addressing business-society issues, such as corporate social responsibility/corporate citizenship (CSR/CC), social entrepreneurship, and organization theory, clashes both with the richness of his thoughts (see e.g., Rothschild, E., 2001; Wells and Graafland, 2012; Werhane, 1991) and with recent calls to develop more complex understandings of these fields (e.g., Bromberger, 2011; Heugens and Scherer, 2010; Porter and Kramer, 2011; Suddaby et al., 2011).

In this article, I contrast Smith’s conception of business enterprise with today's context of business activity. I argue that far from promoting an economic system autonomous from any societal obligations, Smith pleads for a business world in close interaction with its societal context. I further show that his view of business being part of the local community provides important insights as regards the current debate about the relations between business and society. Smith's main contribution lies in his integrative approach that aligns the conception of the organization with conceptions of organizational members and of the role of the local
community. In addition to economic and managerial dimensions, Smith's understanding of the enterprise includes a normative-relational dimension that addresses the enterprise's multiple and complex interactions with the local community through the multiple roles of organizational members such as those of entrepreneur, manager, and owner. This integrative approach clashes with business ethics streams, which reduce the issue of business-society relations to single elements and discuss either the corporation (e.g., CSR/CC streams), organizational members (e.g., Aristotelian and cosmopolitan approaches), or the broader framework (soft and hard laws).

The first section of this article sketches out the structure of the business enterprise as understood by Smith, namely the *undertaking of an entrepreneur* who is at the same time 'owner' of the project and member of a broader community. As a result, the civic role cannot be disconnected from the economic endeavor and implies responsibilities in the business sphere. The local community, the business enterprise, and the individual actor share a common normative framework in which their respective responsibilities are aligned with each other.

In the second section, I discuss four processes which challenge the integration of individuals, business, and society, contributing to breaking the links between the enterprise and the moral norms of its social context. These processes are (1) the dissemination of the corporate model as the standard legal form for business, (2) the transformation of the entrepreneurial role toward an agency role acting in the name of the organization, (3) changes in the ownership structure, and (4) changes in the relation to the local community. As a result, today's business world and its societal context do not offer the framework which underlies most of Smith's developments about economics and management.

In the third section, I suggest that various trends, such as CSR/CC, the implicit social responsibility of small and medium enterprises (SMEs), the emerging social entrepreneurship
movement, and non-governmental organization (NGO) activism might counter the rupture process discussed in the previous section and allow for a re-connection of business to the broader societal context. Nevertheless, these counter-processes are not yet coordinated with each other, neither in theory nor in practice.

In the last section, I argue that Smith's conception challenges today's scholars and practitioners to develop integrative approaches of organizations and their relations to the broader societal context. Models are needed which include, apart from the economic and managerial dimensions of the organization, a conceptualization of the organization's relations to its members (e.g., managers and owners) and to its broader societal and normative framework. I propose to call this dimension the normative-relational dimension. I further propose, following Smith, to pay more attention to actors already displaying more integrative conceptions of their business, such as locally anchored SMEs and social enterprises.

**ADAM SMITH'S EMBEDDED ECONOMIC ACTOR**

**Smith and Economic Self-Interest in Society**

Many management theories are legitimized through a conception of economics whose roots are often attributed to Adam Smith (1723-1790). His "invisible hand" quote (WN, IV.ii.9) and his assertion that "it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." (WN, I.ii.2) are quoted many times in relation to theories such as principal-agent theory and transaction cost theory (e.g., Coase, 1992; see critically Gramm, 1980; Wang and Murnighan, 2011). Authors often refer to these quotes to justify an egocentric attitude close to greed as well as a market disconnected from any ethical reflection (e.g., Greenspan, 2005; see critically Sen, 2010; Wang and Murnighan, 2011; Werhane, 1991). Stigler (1971, p. 265) even asserts that:
"The Wealth of Nations is a stupendous palace erected upon the granite of self-interest. […]

The immensely powerful force of self-interest guides resources to their most efficient uses, stimulates laborers to diligence and inventors to splendid new divisions of labor – in short, it orders and enriches the nation which gives it free rein."

In contrast, many authors have proposed a more holistic interpretation of Smith's work. For them, Smith's two main works, namely WN and TMS, cannot be disconnected and enshrine self-interested butchers and bakers in a broader normative framework which instills pro-social sentiments in their enterprises (e.g., Hanley, 2009; Sen, 2010; Wells and Graafland, 2012; Werhane, 1991). The butcher/baker is, first and foremost, a citizen who shows interest both in prosperous business and in the welfare of fellow community members. As Gramm (1980, p. 133) notices, "Smith's simple system of natural liberty [including free trade and self-interest] was actually a complex social mechanism." This complex framework, which represents "a foundation for determining a private enterprise social contract" (Collins, 1988, p. 119), is developed in Smith's entire work (WN, TMS and Lectures on Jurisprudence, 1978 [1766]) and cannot be reduced to a single metaphor (e.g., Fitzgibbons, 1995; Otteson, 2000). Business concepts developed in WN can therefore not be interpreted without an understanding of Smith's conception of the broader society and its relations to (economic) activity (see Haakonsen, 2006; Rothschild, E., 2001; Wells and Graafland, 2012).

Smith's broader worldview includes the affirmation that one's happiness depends on the happiness of fellow citizens (TMS, I.i.1.1). Self-interest is the main motivation in Smith's economic theory, but it cannot be disconnected from the love of virtues. In his last revision of TMS, he added an entire section (part VI) to discuss the role of virtue (see Hanley, 2009). Throughout the work, he insists that individuals must "humble the arrogance of [their] self-love" (TMS II.i.2.1). "The wise and virtuous man is at all times willing that his own private interest should be sacrificed to the public interest of his own particular order or society" and even to the interest of "the universe" and "of that great society of all sensible and intelligent
beings" (TMS VI.i.3.3). Such virtuous aspirations exist in "every man" (TMS VI.iii.25) and can overrule self-interest and even the local norms if the latter are shrewd (e.g., Hanley, 2009). Further, "nature, when she formed man for society, endowed him with an original desire to please, and an original aversion to offend his brethren" (TMS, III.2.6; see VII.ii.4.7). Social recognition rests however not only on economic prosperity, but also on moral correctness. Moreover, the most virtuous person is endowed "not only with a desire for being approved of, but with a desire for being what ought to be approved of" (TMS III.2.7). Such a person "naturally desires […], not only praise, but praise-worthiness" (TMS III.2.1) and pursues virtue "for its own sake" even if society will never notice and acknowledge one's virtuous decisions and actions (TMS VII.ii.4.10). As this desire is part of one's nature, seeking virtuous behavior is not contrary to self-love, but rather represents "the proper end of those who most care about their own good and seek to transcend self-love's more limiting forms" such as egocentrism (Hanley, 2009, p. 94). Each person has, for Smith, some natural love "of what is honourable and noble, of the grandeur, and dignity, and superiority of our own characters" (TMS III.3.4).

In this perspective, greed is far from an entrepreneurial quality in Smith's view. Smith doubts Mandeville's assertion that the individual pursuit of overly egocentric objectives will lead to a greater good for all, and rather fears that unconstrained self-love will threaten individual liberty and hinder economic development (TMS, VII.III.4; see also Fitzgibbons, 1995). Even though Smith praises self-interest for its contribution to social development (e.g., TMS VII.II.3.16), he nevertheless fears its potential downsides (TMS, I.III.3.1). For him, industrious work, rather than love of riches, is more likely to lead to success. "In all the middling and inferior professions, real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success" (TMS, I.III.3.5).
Smith's Impartial Spectator, Embeddedness, and the Definition of Enterprise

To ensure moral correctness and explain how individuals are subject to social norms when evaluating what to do and what others do, Smith relies on the concept of the impartial spectator – a fictitious person located "within the breast" of each person (TMS III.3.25) to evaluate the moral correctness of attitudes and actions (e.g., TMS, I.i.4-I.i.5; see Collins, 1988; Wilson, 1989). While located within the person, this 'spectator' remains (ideally) free from the person's own biases and passions to impartially evaluate the morality of actions from the perspective of local norms – and ideally from even higher, more universal principles (see TMS VI.ii.3 as well as Forman-Barzilai, 2000; Hanley, 2009). As such, the spectator serves as a guiding voice and connects personal attitude and behavior with a broader normative framework.

Through the image of the impartial spectator, Smith affirms that one's enterprise should be submissive to the norms and values of the community to which the entrepreneur belongs, pointing to the original meaning of the word enterprise. Etymologically, enterprise can be considered as the Latin equivalent of under-taking, that is, a concrete action undertaken by a person. This implies that in most enterprises (in the non-organizational sense of the word), a person invests time and energy as well as money, at least in the form of opportunity costs. The enterprise represents the result of a decision taken by a person, and not, as often defined nowadays, an autonomous organization which is able to take decisions. In this sense, it cannot be disconnected from the entrepreneur, and hence from his/her identity and values. Furthermore, in the prototypical historical situation, the undertaking is often financed by the entrepreneur, or by family or friends. The project is therefore owned by people related to the entrepreneur and living in the same area. Finally, both the entrepreneur and the owner identify themselves as members of the local community. This integration in the community "presupposes first of all a feeling of mutual identity" and implies civic thinking (Solomon,
1994, p. 278) such as sympathy (TMS, I.i) as well as generosity and public spirit (e.g., TMS, IV.2.9ss).

While these virtues are strongly related to one's personality and depend on his/her good will, they also depend on the social influence resulting from one's belonging to a community. Through the numerous social interactions with neighbors, clients, and authorities, entrepreneurs-citizens are permanently controlled and reminded of their civic duties (Perrow, 2002; Rollert, 2011). While ideally individuals ought to seek what is right for its own sake and regardless of social influence (see above), Smith acknowledges that the community and the relations to "fellow-citizens" (TMS, III.2.9) play an important role in guiding one's behavior toward virtuous ends (see TMS, III.2 as well as Gramm, 1980; Solomon, 1994). As noticed by Weinstein (2006, p. 105), "Smith implies a universal ethic throughout his work, yet he adopts a context-dependent moral psychology" and education plays an important role in his framework.

In such a context, one's enterprise is closely tied to the normative demands of the local community. This complex relation can be illustrated by the following relational chain.

\[ Enterprise \leftrightarrow Entrepreneur \leftrightarrow Owner \leftrightarrow Local Community \]

Granovetter's (1985, p. 482) concept of economic embeddedness epitomizes the idea that the broader societal context frames economic activities. Embeddedness refers to the notion that individuals as well as groups of actors are "so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding". Through embeddedness, business actors understand "how business [is] conducted in the area, the local rules and opportunities for business activity" (Jack and Anderson, 2002, p. 481; see also Seelos et al., 2011). Similarly, embeddedness refers in this article to the submission of economic activities to the moral norms of the social environment through a complex network of interactions.
between those who undertake these activities (whether as individual agents or as members of a given organization) and the broader community.

Embeddedness, through which personal values are permanently shaped by the values prevailing in the local community, can be observed throughout history. Until the industrial revolution, most economic activity took place directly in the entrepreneur's home, testifying to the greater interdependence of private, social, and economic life. It should in this sense be no surprise that oekonomia – the Greek origin of the word economy – originally referred both to household rules and economy (Manstetten, 2000, p. 37). Even the Medici family, though leading an important international trade business, impressively exemplified the embeddedness of entrepreneurial activities in cultural and political medieval Florence (Cleugh, 1975; Merton, 1973 [1942]; Padgett and Ansell, 1993). In the same vein, Weber (1976 [1906]) reported that early 20th century American businessmen required that their clients be members of a church, as church membership was a sign of their (economic) trustworthiness. More recently, Galaskiewicz's (1991) study shows how multinational corporations in the Minneapolis-St. Paul area were pushed to the top of the U.S. charity-ranks by the numerous personal relations their directors entertained with the local community.

Smith's reference to the butcher and baker – rather than to the East India Company or the English copper company of London (see his criticism of the latter in WN, IV.vii.c, V.i.e) – is in this sense very evocative. For Smith, the butcher's/baker's economic role is intrinsically related to other roles and implicitly framed by the entrepreneur's virtue which, in turn, partly depends on the broader societal normative framework (see Barber, 2000; Ulrich, 2008).

Therefore, whereas Smith calls for local businesses free from the self-serving aristocratic government, he never frees business activity from the constraints of societal values (e.g., TMS, III.3.25; VI.concl.6; see also Anderson and Wager, 2006). On the contrary, his understanding implies that business activities remain subject to "established rules of behavior"
through the impartial spectator of individual actors (Sen, 2009, p. 187; also Gallagher, 1998; Gramm, 1980; Hanley, 2009; Mehta, 2006). Through complex role interactions, business activities are permeated by the values of the local community and remain under the constant scrutiny of the numerous neighbors, customers, and authorities. The virtuous entrepreneur does not only consider his/her own self-interest, but also takes into consideration the norms as well as the needs of the community when managing his enterprise. Civic responsibilities override the normative assertions of the economic model and set implicit limits to free enterprise (Solomon, 1994; Wilson, 1989). CC is inherent to the entrepreneur's embeddedness as a fellow-citizen in the local community. It does not need to be explicitly addressed. Even though bad apples can be observed throughout history and the application of civic norms varies from one individual to another, not respecting societal values is usually considered illegitimate and often implies social condemnation or exclusion (Gonin et al., 2012; Werhane, 1991). Smith's *invisible hand* which transforms the market economy into contributions to social welfare does not merely represent the butcher's/baker's egoism, but implicitly includes social and moral obligations resulting from being part of a local community (Meyer-Faje and Ulrich, 1991; Rollert, 2011). "The free enterprise system was nurtured in an environment with a strong ethical consensus – a necessity for its existence" (Chewning, 1984, p. 11).

In the light of this embedded conception of business, relying on Smith to propose an economic business system based on legal persons deaf to the moral principles means neglecting both Smith's broader work on individual moral sentiments and Smith's conception of business-society relations. Smith prefers "'mom and pop' stores, small manufacturers, large landholders with tenant farmers, and entrepreneurial merchants" (Werhane, 1991, p. 164) to corporations (WN, I.x.c.31, V.i.e). Through their local anchorage, smaller businesses are connected to society's values and norms as are all other daily activities (Giddens, 1994; Solomon, 1992). Furthermore, a smaller enterprise might be more efficiently managed by an
owner-entrepreneur who "views [his business] with all the affection which property, especially small property, naturally inspires, and who upon that account takes pleasure not only in cultivating but in adorning it." Such local owner "is generally of all improvers the most industrious, the most intelligent, and the most successful" (WN, III.iv.19).

**DISEMBEDDED BUSINESS ACTORS**

Even though the relational chain presented above represents an ideal from which reality regularly differs – even in Smith's time – some changes in the business organization’s legal form, structure, and relations have led to changes in the relational chain and hence to the challenging of the implicit embeddedness of business in the local community. First, the enterprise has gained the status of a disconnected, legal person and is therefore no longer directly subject to the values of the entrepreneur. Second, the emergence of various intermediaries has broken the links between the enterprise as a legal person and the owners. Third, the manager as an agent cannot be compared to the prototypical entrepreneur whose various societal and economic roles are enmeshed. Fourth, the firm's relation to the local community has weakened.

**First Disembedding Factor: The Enterprise as Legal Person**

The first process contributing to the creation of breaches in the relational chain between the enterprise and the citizen and his civic thinking emerged as the enterprise was no longer bound to the entrepreneur. The high costs of modern technology emerging in the nineteenth and twentieth centuries required new forms of organization. Enterprises with more and more employees and investors were created to collect the money needed for larger projects. These larger enterprises were no longer undertakings of single persons, but complex institutions which eventually gained autonomous legal existence, most often as corporations (Berle and Means, 2005 [1932]; Chandler and Mazlish, 2005). As legal persons, corporations benefit
from certain rights in society. They can act in their own name and engage in economic transactions, hire people, and publicly defend some opinion, but also be sued in case they harm their stakeholders (Logsdon and Wood, 2002; Moon et al., 2005; Nace, 2003). In other words, they are granted their own will and related liability.

Nevertheless, an important difference between citizens and corporations remains. As a legal construct, a corporation is not automatically civilized by Smith's moral sentiments. It has no impartial spectator within its breast to appraise or condemn its actions. Its projects are neither automatically under moral scrutiny, nor framed by some natural need to gain society's appraisal. For these reasons, Smith does not believe in "joint stock companies", as they were called at that time (WN, V.i.e). Actors in these structures play specific roles and are disconnected from each other and from the broader societal framework (see the second and third disembedding factor below).

Despite the emergence of the enterprise as an autonomous legal person, one could argue that civic thinking can still be instilled in the corporation as ultimately it is human beings who take decisions and act within the organization. This argument fails however as the other links of the relational chain are broken. Owners struggle to instill personal values in their business, the principal-agent theory prevents managers from integrating personal values at work, and the relation between business and local community is challenged.

**Second Disembedding Factor: Diffuse Ownership**

Whereas it is often said that shareholders are the owners of the firms and therefore define the firm's mission and values (Gillan and Starks, 2003; Jensen and Meckling, 1976; see critically Pfister, 2010), three main factors have weakened their moral control over corporations: the increasing number of shareholders, short-term investments, and the owner's distance from daily business. First, because a high number of shareholders 'own' a firm and share the responsibility to instill proper civic virtues in it, individual responsibility is
challenged. Some giant corporations have hundreds of thousands of shareholders (Berle and Means, 2005 [1932], p. 47; Gillan and Starks, 2003). Due to the multiplication of shareholders, the specific responsibility of each shareholder becomes harder to define. Social loafing theory (see Liden et al., 2004; Plous, 1993) stipulates that as the number of persons bearing a specific responsibility increases, the feeling of responsibility of each individual decreases. Following this concept, one can expect that if a firm’s shareholders are numerous, individual responsibility will be diluted and each of the owners-citizens will feel less responsible for his/her firm's decisions and actions (Gillan and Starks, 2003).

Second, whereas in the past, the lack of information and the sluggishness of any process implied that investments were to be made with a long-term perspective, today's stock exchange technologies allow for buying and selling at will. However, short-term investments do not allow the owner to 'adopt' the corporation in which he/she invests, reflect upon the company's values, and be informed about its daily business and inherent potential ethical issues. Rather, the owner's interest is limited to quarterly profits and return on investment or other financial performance (Gilbert, 1990). This pressure is transmitted to the corporations which are increasingly required to focus on short term economic results and to neglect other issues (e.g., Goldberg, 2003; Law, 1986).

Third, most shareholders, especially small investors, remain geographically remote from the concrete actions and decisions taken by the corporation as a legal person and have difficulties understanding the managerial and moral challenges related to corporate activity (Gillan and Starks, 2003; Ulrich, 2008). Smith already observed this problem in his time:

"But the greater part of those proprietors seldom pretend to understand anything of the business of the company, and when the spirit of faction happens not to prevail among them, give themselves no trouble about it, but receive contentedly such half-yearly or yearly dividend as the directors think proper to make to them" (WN, V.i.e.18).
The distance between owners and enterprise is further increased through institutional investment, that is, the investment of a corporation in another corporation (Jia-Ming and Morss, 2005; Ulrich, 2008). Institutional investors become the most active owners and nowadays play a central role in corporate governance (Deakin et al., 2001; Gillan and Starks, 2003; Schleifer and Vishny, 1997). However, institutional investors are often corporations and therefore show similar flaws concerning the integration of civic virtues in the corporations they hold. Institutional investor employees are agents of the investment company and, as such, must focus on maximizing return on investment unless explicitly told otherwise by their respective owners and clients (see critically Moldoveanu, 2002 as well as the third disembedding process below). In addition, investment companies' owners and clients such as pension fund holders are too numerous and too distant from the daily business to realize the civic responsibility they bear for the investments of their investment company, and therefore fail at providing proper directions as regards the civic virtues of the corporation they hold through the investment company.

In consequence, civic thinking can hardly permeate (bigger) organizations through the shareholders. In fact, it is often considered so obvious that shareholders are merely concerned about profit that many stock market regulations oblige listed corporations to maximize profits (see also Jensen, 2002; Sundaram and Inkpen, 2004).

**Third Disembedding Factor: From Entrepreneur to Manager**

Breaches in the relational chain between the firm and the owners would not be problematic if managers were able to link their business to societal values. However, according to the widespread principal-agent theory (Eisenhardt, 1989; Jensen, 2002; Rees, 1985a, b; see critically, Ghoshal, 2005), corporations belong to the shareholders who are the 'principals' to which employees, including those in management, are subject. The
entrepreneur-citizen previously bound to civic virtues is reduced to a managerial agent, that is, someone endorsing a specific function whose role and values are clearly defined by the script of business theory (Barsoux and Lawrence, 1991; Kelly, 2001; Ulrich, 2008).

For Smith, individuals (including entrepreneurs) show (rational) ways of thinking that take into consideration values such as generosity and sympathy. They attempt to see situations from the perspective of their fellow community members (whom we would call stakeholders today). By challenging their own motives through other people's perspective (TMS III.1.2), they often put boundaries around their self-interest. In contrast, management is often reduced to objective and predetermined formulas and models that can be applied independently from any interaction with fellow citizens. Furthermore, as they manage someone else's property, Smith expects that managers will not "watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own" (WN, V.i.e.18). As a consequence "folly, negligence, and profusion should prevail in the whole management of [joint stock company] affairs" (WN, V.i.e.22). More recently, Berle and Means (2005 [1932], p. 116) called managers "economic autocrats" who endorse the values and norms desired by the shareholders and ignore any other values or responsibility (see critically Mintzberg, 2004; Pruzan, 2001). Instead of thinking by themselves, they ought to subordinate their own objectives and mindset to the end and values of the corporation (Newton, 1992; Wells and Graafland, 2012). Furthermore, the theory suggests that unless clearly specified, shareholders' interests are supposedly limited to profit maximization (see also WN, V.i.e.18). Hence, if the manager desires to spend corporate money out of reflected consideration of some stakeholders' need, he/she first needs the explicit consent of the shareholders. Such investment would otherwise be considered as theft of shareholder money (Friedman, 1970; Jensen, 2002; see critically Kelly, 2001, pp. 51-67). To ensure that the manager's behavior is in line with the owner's vision, principal-agent theory (Rees, 1985a, b; Crook, 2005)
prescribes proper financial incentives and governance instruments so that managerial self-interest corresponds to the interests of the principals (see WN, V.i.e.11 as well as, e.g., Denis, 2001; Wieland, 2005).

In consequence, managers, as organizational agents who are bound by the profit-maximization expectations of shareholders, struggle to integrate civic roles and duties in their practice and listen to their inner impartial spectator. This problem is even exacerbated when the organizational structure implies multiple levels of responsibility and divides projects into multiple tasks. The division of responsibility might then lead to the afore-mentioned social loafing issue and overly specialized entities might render many workers incapable "of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life" (WN, V.i.f.50). As each actor focuses on a narrow task without considering the overall and sometimes indirect outcome of the broader corporate project, there is an increased risk that "the voice of conscience, of the impartial spectator, may be muted" (Wilson, 1989, p. 68).

**Fourth Disembedding Factor: Weakened Influence of Local Community**

In addition to changes that took in the organizational governance structure, the local community has also endured changes that weaken the influence of societal norms on business activity. The homogeneous normative framework on which the impartial spectator relies to evaluate actions is replaced by a multitude of value systems of which none can claim universal authority. While the existence of various value systems is not new, their simultaneous presence within a single community represents a specificity of 21st century globalized society. A thorough discussion of the pluralization and globalization process would go beyond the scope of this article (see e.g., Beck, 2000; Scherer et al., 2006; Scherer and Palazzo, 2008). However, three essential consequences are worth mentioning here. First, pluralization frees managers from the scrutiny of the impartial spectator. As multiple cultures
and systems of values co-exist, managers might tend to follow a chameleon strategy and choose the particular value system that best suits their interest in a given situation (see Gonin et al., 2012; Kobrin, 2001; Young, 2004). The anchorage of individuals in the community, which represents an essential component of Smith's system of moral scrutiny through the impartial spectator, weakens as business operates in multiple and partly competing moral frames.

Second, the combination of trade liberalization and new technologies provides enterprises and especially multinational corporations with enhanced possibilities to move quickly and at low costs around the world (Chandler and Mazlish, 2005; Young, 2004; Scherer et al., 2006) – and circumvent local moral standards (Kobrin, 2009; Rondinelli, 2002). Today's business mobility differs in this respect from the situation of older international firms such as that of the Medici family and the East India Company which were deeply rooted in their original communities (see WN, IV.vii.c, V.i.e, as well as Cleugh, 1975; Padgett and Ansell, 1993; Wilkins, 2005).

Third, globalization moves the consequences of business activities beyond the managers' and shareholders' sight (Monks, 2005; Wilkins, 2005, pp. 54-57). In the prototypical situation, managers and owners were acting within a rather small community and could directly observe the consequences of their business decisions and actions on employees and neighbors. While their butcher and baker did not provide their goods merely out of benevolence, they nevertheless were embedded in a local community and their happiness also depended on that of their fellow community members.

"As selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it" (TMS, very first sentence, see also TMS III.3.4).
Nowadays, globalization prevents such direct observation. Geographically remote managers and investors are less aware of, and involved in, the relations between distant factories and their local environment – and therefore have difficulties identifying key side effects of their decisions as well as locally specific ethical issues. These difficulties were already observed to some extent by Smith’s criticism as regards the East India Company's behavior in India (e.g., WN, V.i.e.30) – despite the limited mobility and the limitation of the business to two main geographical locations, namely Britain and India.

**The Resulting Business-Society Relationship**

The fourfold disembedding process leads to a new type of relation between the business world and civic thinking, characterized by a specialization of tasks. It allows for enterprises to be autonomous from the societal framework and prevents the values of the local community from implicitly permeating their daily activities. While globalization and pluralization weaken the normative influence of the local community on business, specialization reduces firms and managers to actors playing a specific role unrelated to the broader society (Chandler and Mazlish, 2005; Weber, 1968 [1921]). As a result, corporations as legal persons show an important autonomy of thinking and acting, managers are to focus on economic self-interest, and shareholders, especially institutional investors, fail to instill civic virtues in the businesses they own. Although Smith praises specialization for its potential contribution to tremendous technological and economic development (WN I.i), he also notices its dangers, namely that a worker too specialized on a narrow defined task "generally becomes as stupid and ignorant as it is possible for a human creature to become" (WN V.i.f.50). This degradation of human nature also concerns "all the nobler parts of the human character" that risk being "obliterated and extinguished" in highly specialized cultures (WN V.i.f.51).

As a result, the enterprise is a place with its own way of thinking. The impartial spectator, which represents Smith's central construct to describe normative control processes, fails at
controlling institutionalized organizations. In recent years, various trends can nevertheless be observed in theory and practice that contribute to re-connecting the business enterprise to the broader society. In the next section, I discuss some trends currently observed among bigger corporations, SMEs, as well as social entrepreneurship in relation to Smith’s integrative conception of business-society relations.

SMITH AND THE RE-EMBEDDING OF THE 21ST CENTURY BUSINESS

In reaction to calls for stronger ties between business and society (e.g., Moon et al., 2005; Scherer et al., 2006), many initiatives can be observed among business actors to better align their activities with societal values and so to re-connect the four elements of Smith's relational chain discussed above, namely:

\[ \text{Enterprise} \leftrightarrow \text{Entrepreneur} \leftrightarrow \text{Owner} \leftrightarrow \text{Local Community}. \]

In this section, I propose to briefly address the initiatives which take place within each element of the relational chain, namely the enterprise as an organization, the entrepreneur, the owner, and the local community. For each of the first three elements of the relational chain, I will refer to examples found among bigger corporations as well as among SMEs and social enterprises to illustrate my argumentation. In the next section, I will present a framework that integrates these multiple initiatives in a broader picture.

First Reconnection: Social Concerns in Business Enterprises as Organizations

Initiatives among Corporations. CSR and CC broadly reflect Smith's central idea that business is in interaction with a broader community in which the pursuit of self-interest cannot be based on greed or harm fellow actors (TMS, III.3.5, VII.ii.1.10, as well as Smith's criticism of Mandeville's model, TMS, VII.ii.4.6ss, see also Wells and Graafland, 2012). Accordingly, corporations are to endorse various responsibilities toward the community in
which they operate to keep their license to operate (Valor, 2005). Furthermore, they also have responsibilities as regards their supply chain as well as the way their products are used and consumed (e.g., Kobrin, 2009; Logsdon and Wood, 2002; Moon et al., 2005; Palazzo and Scherer, 2006; Schrempf, 2012). CSR/CC represents therefore, for many authors, a way for corporations to keep their legitimacy to pursue their profit objectives in manners reflecting their membership to, and activities within, one or multiple communities (Friedman, 1970; Jensen, 2002; Porter and Kramer, 2006).

*Initiatives among SMEs.* Whereas the profit objective plays an important role in the definition of the CSR/CC activities of many bigger corporations (especially public ones), various studies show that profit maximization seems to be less central for many SMEs and especially family-owned businesses. Rather, SME owners' 'self-interest' is often reduced to earning enough to cover costs and secure a correct living as a member of a given community (Fassin, 2008). The prudent relation SMEs entertain to profit distribution very nicely embodies self-interest in the Smithian sense of a self-care that complements goodwill and that can never trump social obligations (see above and WN, I.ii.2, TMS, III.5.8, as well as Adler, 2008; Wells and Graafland, 2012). In fact, "Smith's ideal economic actor is a person of goodwill, prudence, and self-restraint who operates both cooperatively and competitively in a social and economic milieu based on a foundation of morality, law, and justice" (Werhane, 1991, p. 180) – SMEs and family-owned businesses regularly show such characteristics (Deephouse and Jaskiewicz, 2013).

*Initiatives among Social Enterprises.* In addition to CSR/CC and locally anchored smaller businesses, a third group of businesses display a particular way of connecting business to social norms, namely social enterprises. Like bigger corporations and SMEs, social enterprises also combine economic endeavors with social considerations, but display a different equilibrium between economic and social objectives. They rely on a business
mindset and a managerial spirit in their endeavors (Smith, W.K. et al., 2013). They seek to gain financial stability rather than "depend chiefly upon the benevolence of [...] fellow-citizens" (WN, I.ii.2). At the same time, social enterprises are strongly anchored in the local community and set the social end above, or at least equal to, the economic objective. Except for some bigger international ventures, most social enterprises "tend to be embedded within local communities in the sense that they target the needs of a locally defined set of individuals" (Seelos et al., 2011, p. 337; Tracey et al., 2005). Nobel Laureate Muhammad Yunus reflects this mindset in the structure of his Grameen Bank, which grants tremendous autonomy and responsibility to local structures, and involves most account holders as shareholders (Yunus, 2010). In Europe, many authors further insist on the participatory governance of social entrepreneurship (e.g., Defourny and Nyssens, 2010; Hart et al., 2010).

These trends among all types of business organizations represent important steps in better aligning today's business-society relations with Smith's view of locally anchored enterprises while also respecting some of his economic central principles, namely private property (e.g., WN, V.i.b.2), free enterprise (e.g., WN IV.ix.51), and industriousness (see e.g., TMS, II.3.20, III.6.7), that is, "the honoring of work as a good thing, almost a sacred task, that deserves diligence and commitment" (Wells and Graafland, 2012, p. 335). Furthermore, these trends in organizational mission and vision are complemented with changes among their leaders, to be discussed in the following paragraphs.

Second Reconnection: Social Concerns among Business Leaders as Individuals

Initiatives among Corporate Leaders. In the past decades, various authors have addressed the issue of the responsibility of leading individuals within bigger business organizations. For instance, some authors refer to Beck's (2006) concept of cosmopolitan identity to define a new generation of business leaders who are more conscious of their responsibilities toward the community. Such leaders are "aware of the pressing problems in the world, care for the
needs of others, and in particular for the distant needy, aspire to make this world a better place and act in word and deed as global and responsible citizens" (Maak and Pless, 2009, p. 538; see Weinstein, 2006). They are not only accountable to shareholders, but include the interests of many other stakeholders in their work as managers (Freeman, 1994; Parmar et al., 2010). Other authors rely on the Aristotelian tradition to highlight the importance of the individual actor’s concern for ethical values at work (e.g., Fontrodona and Sison, 2006; Sisón et al., 2012; Solomon, 2003). Leaders in this view are members of a broader community and display responsibilities toward it, acting in accordance to the local virtues (see also TMS, part VI). Despite their differences, both the cosmopolitan and the Aristotelian approach highlight the importance of re-integrating higher-ranked virtues into the managerial responsibilities of corporate leaders. The entrepreneur's/manager's personal values frame managerial tasks and instill social and environmental thinking in the enterprise (see Melé, 2003).

*Initiatives among SME Managers.* The submission of economic objectives to the norms of the surrounding social framework has long been observed, although more implicitly, among managers of SMEs and family-owned businesses (e.g., Quinn, 1997). Recent studies confirm that even though SMEs neither explicitly refer to CSR nor communicate on this issue (see e.g., Nielsen and Thomsen, 2009), their practice reflects social values dear to the family members involved (Fassin, 2008; Spence, 1999). Further, SME leaders know that

"the success of [men in the inferior and middling stations of life] almost always depends upon the favour and good opinion of their neighbours and equals [...]. The good old proverb, therefore, that honesty is the best policy, holds, in such situations, almost always perfectly true" (TMS I.ii.2.5, see Fassin, 2008; Vyakarnam et al., 1997).

Consequently, abiding by local norms and values becomes essential for locally anchored SME directors to attract customers and keep their business running.

*Initiatives among Social Entrepreneurs.* In the same vein, many social entrepreneurs see their civic thinking, personal values, and emotions such as feelings of injustice when
confronted with a specific social issue permeate and guide their daily work (Bornstein, 2004; Mair and Noboa, 2006). Even though the notion of social entrepreneur may have been unknown to Smith, the characteristics of such entrepreneurs seem to consistently reflect Smith's insistence on the moral feelings and on the responsibilities of individuals toward the local community.

Through various processes, entrepreneurs/managers in bigger corporations, SMEs, and social enterprises seem therefore to show a regained consciousness of their membership within a broader local community. The latter permanently reminds them that their happiness also depend from the happiness of their fellow community members (TMS, I.1.1; III.3.4). This change in mindset leads to increased moral imagination and to better listening to emotions arising from "entering imaginatively into the feelings of others and allowing the sympathy to guide [their] actions" (Wilson, 1989, p. 70; see also TMS I.i.1.2 as well as Werhane, 2006). Through moral imagination, they can better connect with stakeholders and increase their motivation to take their needs into consideration (TMS VI.ii.1.14, see also III.5.1 as well as Forman-Barzilai, 2005; Hanley, 2009; Sen, 2011; Weinstein, 2006). Similar increases in awareness can further be observed among owners of business organizations.

**Third Reconnection: Social Concerns among Owners of Business Organizations**

While abundant literature can be found about the entrepreneurs' and managers' responsibility to reconnect work to the broader societal context, less can be found about the responsibilities of business owners. In recent years however, trends among various types of owners suggest a shift toward extended societal concerns.

*Initiatives among Corporate Owners.* As regards bigger corporations, shareholder activism is gaining in importance. Even though socially responsible investing has long been reduced to negative screening (exclusion of specific industries such as the tobacco/alcohol industry from the investment portfolio) and in some cases positive screening/best-in-class
approaches (inclusion of the best corporations of each industry), the active participation of shareholders in general assemblies to instill social values is gaining in importance (Eccles and Viviers, 2011; Sparkes and Cowton, 2004). While direct successes of this movement remain anecdotic if measured in terms of accepted propositions in shareholder assemblies, their influence in direct negotiation with management is not to be neglected (Reid and Toffel, 2009). As it connects owner involvement in business to civic engagement, shareholder activism reflects Smith's view of business as an activity that takes place within a community and hence in accordance to the community's moral standards.

Initiatives among SMEs owners. As regards SMEs, and especially family-owned businesses, the social influence of owners is well-established (see e.g., Besser and Miller, 2004; Harris and Ogbonna, 2007). For many of these firms' owners, preparing a legacy that future generations of children-owners are proud of involves reflection about the business' economic and social future. These firms are known for being less interested in maximizing dividends to owners than for securing future development and building some reserves for harsher times – an approach of money which reflects Smith's virtue of prudence (TMS I.III.3.5, IV.2.8, VI.i.6). Further, organizations owned by individuals more directly concerned by daily activities and embedded in the local community might develop governance structures and decisions processes that better connect business activity with local norms (WN, IV.ii.10; see also Forman-Barzilai, 2000; Otteson, 2010). These stronger ties can further be observed among many cooperatives that insist on the value of each cooperative member's voice as owner and citizen. This can be the case for cooperatives owned by workers who are directly concerned by the production process (Forcadell, 2005; Rothschild, J. and Whitt, 1986; Sauser, 2009) as well as for cooperatives owned by consumers who are directly concerned by production outputs (see Hibbert et al., 2003; Ostrom, 1990). Following the same logic, many cooperative banks are structured in networks of local bank cooperatives owned and hence
governed by the local savers and debtors themselves (Ory and Lemzeri, 2012; see also Yunus, 2008).

Initiatives among Social Enterprise Owners. As regards social enterprises, their owners are often actively seeking the welfare of (a specific) community. Social entrepreneurship venture funds, local micro-finance structures such as the Grameen Bank, as well as the investment of socially aware individuals (e.g., through online investment platforms which connect lenders to borrowers) allow for specific ties between the owner's societal values and the enterprise (see Yunus, 2010). The smaller scale of many social entrepreneurship ventures as well as the direct relations between funders and entrepreneurs allow for more intense investor involvement in the enterprise, and so for more efficient permeation of the owners' civic values in the venture. Moreover, in Europe, social entrepreneurship can be related to some elements of the well-established social and solidarity economy movement in which engaged ownership has a long tradition (e.g., Defourny and Nyssens, 2010).

The attempts to re-embed owners of corporations, SMEs, and social enterprises in a broader societal context complement the trends observed among organizational leaders as well as in organizational missions, visions, and codes of conduct. These processes within and around the organization are paralleled by initiatives stemming from various actors within the local community.

Fourth Reconnection: Activism in the Local Community

In reaction to the global scope of business activity and socio-environmental concerns, community activism aims at setting normative pressure on corporations on a global scale (Baur and Palazzo, 2011; Scherer et al., 2006). As such, it can be considered as a relay to Smith's impartial spectator in a globalized and pluralized world (see Konow, 2012). Even though today's pluralism challenges the notion of a universal set of values that ought to be represented by the impartial spectator – especially when acting globally – NGOs represent
control and sanction structures in situations where the local community lacks information and tools to pressure corporations. By collecting information about business activities and disseminating it worldwide, NGOs partly compensate for the remoteness of individual actors such as managers and owners from the daily activities of their business. By bringing specific issues into light, they facilitate moral imagination and increase one's proximity with fellow humans around the world, thereby increasing one's capacity to distinguish proper attitude and behavior as regards these issues. Furthermore, NGOs can play a federative role within the civil society and initiate dialog with businesses much as previous local community members could approach the baker/butcher (Argenti, 2004; Kobrin, 2001; Spar and La Mure, 2003; Swartz, 2010). In the case of multi-stakeholder initiatives, this process can lead to a definition of common norms and labels on specific issues (Bartley, 2003; Pattberg, 2005) and, as such, might replace the previously more informal norm formation process observed within Smith's local community (for a discussion of Smith's understanding of civil society, see Boyd, 2013).

In the same vein, local authorities play a role in challenging corporations to get involved in the socio-economic life of the community, especially in the Western world. While sometimes competing with each other to attract profitable businesses, they also seek collaboration with businesses to disseminate CSR-related best practices among local enterprises and create additional positive contributions through new types of partnerships between firms and other local actors (see e.g., Bradford and Fraser, 2008; Murillo and Lozano, 2009; Tracey et al., 2005). The desire for authorities to strengthen ties between businesses and local communities has further been highlighted recently by efforts to better control organizations and activities that are not bound to a specific community such as those related to (international) e-commerce (e.g., Jarvenpaa et al., 2003; Nguyen et al., 2012).
TOWARD AN INTEGRATIVE CONCEPTION OF ORGANIZATIONS

As the preceding section shows, the many processes within each of the elements constituting the enterprise-entrepreneur-owner-citizen relational chain represent important steps toward a more profound and genuine interconnection between business and society as conceived by Smith. However, each of these re-embedding processes usually focuses on one specific link of the relational chain. While CSR/CC focuses on the enterprise as a specific entity, the cosmopolitan and the Aristotelian approaches focus on individual managers while shareholder activism addresses issues related to the owner (Baur and Palazzo, 2011; Hsieh, 2004; Scherer et al., 2006).

This rather segmented approach contrasts with Smith's holistic framework that presents the enterprise as a societal actor having multiple and complex interactions with its environment. As shown in the first section of this article, the enterprise, the entrepreneur, the owner, and the citizen are all entangled and cannot be clearly distinguished from each other. Therefore, the responsibilities of the community, the organization, and the individual within it (whether owner or manager or both) can only be effectively addressed if discussed simultaneously. The broader community shapes the influence of the impartial spectator and the identity of the entrepreneur and hence of his/her entrepreneurial activities. In this context, even the separation of two traditional business roles of individuals, namely that of manager and of owner, is dubious (see above). This prudent position has been confirmed with Keynes' (1933, p. 758) observation that "experience is accumulating that remoteness between ownership and operation is an evil in the relations between men, likely or certain in the long run to set up strains and enmities which will bring to nought the financial calculation."

While a detailed discussion of an integrative definition of organizations might be the topic of another article, this article highlights that for organization theory to be relevant for 21st century management practice, it needs to explicitly address, apart from economic and
managerial dimensions, the firm's normative-relational dimension. This dimension includes the organization's complex relations to its members as well as to its societal context and the inherent normative framework. This requires a discussion of both (1) the types of societal norms that shape the identity of the organization and (2) the processes through which these norms influence the organization's being, thinking, and acting.

As regards the first point, Smith's complex work for instance discusses the relations between self-interest as a driver of economic endeavor and virtues that transcend self-interest and lift individuals to higher moral grounds. It would be out of the scope of this article to further detail these complex interactions, but work seems needed to go past the 'egocentric vs. non-egocentric' debate and develop conceptions of individual actors in business that take into account the complex and sometimes ambiguous reality of human beings as economic actors.

As for the second point, the concept of impartial spectator makes valuable contributions to the way the enterprise relates to the broader community by connecting one's activities to the moral obligations of the local community. Smith's framework points to the fact that any conception of an organization's relations to the broader society implies a specific understanding of the organizational members' roles and responsibilities in connecting the organization to the broader society and its values. The relational chain presented in this article shows that for Smith, the enterprise is nothing more than the endeavor of locally anchored individuals. Its connection to the broader society is therefore ensured through individual persons – managers/entrepreneurs and business owners – and especially the impartial spectator within their chest.

Additional reflections within organization theory about the relations between a given conception of the organization and the inherent conceptions of the organizational members (e.g., employees, managers, CEO, board members, and shareholders) as regards business-society relations might therefore be needed. A narrowly economic conception of the
organization very often implies a narrowly economic conception of the roles of organizational members.

In this view, the various current re-embedding processes might need to be integrated in a holistic picture that highlights their reciprocal influence and synergies. Current discussions about the CSR at the level of the organization might need to be integrated with discussions of the roles, responsibilities, and mindset of the individual organizational members. For an organization to better listen to stakeholders and/or to impartial spectators, individuals within the organization are to be given the necessary time and latitude to reflect upon corporate activities and share their thoughts about potential concerns. Conversely, the cosmopolitan and Aristotelian conceptions of managers might only be successful if the corporations in which these virtuous managers work are also re-defined as organizations pursuing broader objectives than profit maximization – a step that most articles on business ethics have not yet dared to make (see critically Brown and Forster, 2013; Dubbink, 2004; Gond et al., 2009; Walsh, 2005).

The strong entanglement between the organization and the individual in Smith's framework as well as the important role he attributes to individuals in transmitting the civic mindset explains Smith's preference for locally anchored SMEs in which ownership and managerial structures are concentrated in the hands of a few individuals – and his reluctance toward bigger joint stock companies. This focus on actors who show a long tradition of entangling economic and social dimensions of their lives challenges management scholars' tendency to direct research on well-established, bigger, and often transnational corporations. Studies on smaller and locally anchored businesses such as SMEs and social enterprises might however contribute to developing a comprehensive model of (business) organizations. These smaller actors might indeed display a complex albeit implicit understanding of their identity and of their relations to the local community currently not accounted for in traditional
organization theory. Furthermore, they often show high coherence between the conceptions of the business, the individual within the enterprise, and the societal framework. In the same vein, insight might be gained from further studies on the legal forms recently developed at the crossroads of business and society, such as the Benefit-Corporation (Bell, 2011), the Low profit Limited Liability Company (Bromberger, 2011), and the Community Interest Company (Haugh and Peredo, 2010).

CONCLUSION

In this article, I have presented Smith's complex understanding of the enterprise and its relations to the broader society. I have insisted on Smith's comprehensive approach of the issue and the integration, in his work, of all three business ethics factors found in the literature, namely the societal framework, the organization, and the individual.

I have further argued that Smith's work provides several important insights for the development of an integrative model. Smith's comprehensive approach calls today's scholars to develop a model that includes a conception of the normative-relational dimension of organizations, that is, of the interdependent relations between the normative framework of society, the organization, and the various organizational members such as owners and managers. Further, Smith's study suggests that more attention is to be paid to business actors showing an integrative conception of their activity, namely SMEs and social enterprises.

Various processes can already be observed within business ethics research as well as management practice that lead to new bridges between the normative expectations of society and the business world. This article does not challenge the importance of these processes. Rather, it seeks to provide an integrative framework that allows for combining and pursuing these efforts and for better valuing their synergies and reciprocal influence.
By doing so, this article also contributes to the discussion about Smith's original intentions. Smith was professor of moral philosophy and as such was concerned with economics as part of a bigger question, namely that of the just distribution of wealth and the development of all actors in a context in which poverty still led to starvation. This last point might represent the most important challenge for management scholars, as it points less to a discussion of the objective of management (which we specialize in) than to a thorough reflection about the ultimate aim of management theory. While modernism narrowed each field of research and hence restrained management to mere economic issues (Friedman, 1953; see critically Ferraro et al., 2005; Ghoshal, 2005), Smith saw economic theory as an implication of another field of research, namely moral philosophy, and therefore dealing primarily with social justice issues such as the prevention of deep poverty and the inherent social and sanitary problems that plagued many local communities (see WN, IV.intro.1 as well as Sen, 2011). Business and society scholars have acknowledged for over two decades the unavoidable social and political dimensions of business activity (Carroll, 1991; Freeman, 1994; Scherer et al., 2006; Scherer and Palazzo, 2007), much like Smith. By doing so, they have revived the central question of the ultimate aim of business theory (Dubbink, 2004; Wettstein, 2012). Answers to this central question might not be without consequence for the direction and relevance of further research in CSR/CC and organization theory.
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