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REVISITING THE CONCEPT OF THE FIRM’S ETHICAL SHARED RESPONSIBILITY WITH THE CONDUIT VERSUS CONTENT (CVC) MODEL

ABSTRACT

This paper explores the issue of shared ethical responsibility of firms in market transactions, particularly in the case of adverse events. The CVC (Conduit Versus Content) model is applied to classify firms according to their role in the market transaction and the degrees of separation of these firms from the transaction. The firm as conduit has a higher degree of separation from the market transaction and a smaller role in the transaction. Hence, it shares the ethical responsibility for market events with other participants in the transaction. The firm as content plays a more significant role in the transaction and has fewer degrees of separation, making it the bearer of much of the burden of direct ethical responsibility for market events. Two cases are presented to illustrate the analytical power of the model. The Uber Transportation Company in the sharing economy is described as a conduit type firm, and an urban hospital as a content type organization. The classification of firms with the CVC model and the different levels of shared ethical responsibility have important practical implications. Insurance companies now may have a template to rationalize different assessment of risk and responsibility of firms in adverse events. Investors concerned with corporate social and ethical responsibility may use this model to increase their focus on firms as content which are closer to the market transaction and would bear much of the responsibility for adverse events. Regulators may use the model to adjust and differentiate their criteria for ethical behavior or environmental protection based on the firm’s distance from the market transaction and its role in the transaction. The article suggests several avenues for further research.

Keywords: Conduit Versus Content; CVC; shared ethical responsibility; adverse events; market transactions; degrees of separation.
1. INTRODUCTION

Firms producing and marketing products and services are held responsible for the malfunction of their outputs. They are held liable for damages caused by the defective performance of these products and services (Robinson, 2009; Roloff and Ablander, 2010). The firms are held to account for both the legal and ethical perspectives. In some instances, these perspectives coincide (Bird and Hughes, 1997).

Currently, the firm’s ethical and legal responsibility for negative impacts of what they bring to the marketplace is judged by the industry or sector to which the firm belongs and by the type of product or service. There is a lack of a unifying model which categorizes companies at the fundamental level (Spence, 1977; Sierra, Heiser, and McQuitty, 2009).

This article focuses on the differences in the level of responsibility by the firm, based on the analysis of the fundamental categories of these firms as participants in market transactions. The article attempts to shift the emphasis from the firm’s product or service-based, to a model which focuses on the nature of the firm and its role in the market transaction. The responsibility of the firm is therefore bounded and shared with other market entities. This responsibility and accompanying liability are not absolute, but conditional upon the nature of the firm’s participation and activity in the marketplace (Corporate Board, 1990; Szmigin and Rutherford, 2012).

The fundamental model is the Conduit Versus Content (CVC) classification of how the firm is involved in a market transaction in which its product or service is being used and in certain instances may cause, induce or otherwise contribute to adverse incidents that negatively impact and damage consumers and the environment (Mayer, France and Cowell, 2005). The CVC model supports the notion that the ethical, social, and legal responsibility of the firm is
bounded or graduated, thus limited by the nature of the firm (conduit or content), by circumstances, and by other organizational and human factors (such as the negligence of users).

This notion of shared and graduated responsibility is a departure from current concepts and practices in the attribution of culpability and negligence to the firm. The CVC model constitutes a fundamental framework for the analysis of cases of negative incidents, accidents, or malfunction – where damage and loss had been sustained. The responsibility of the firm in such events is first judged and assessed by its fundamental nature as conduit or content.

This paper is organized in five parts. The first describes the nature of the CVC model and the notion of degrees of separation of the firm from market transactions, and how the model is applied to the concept of shared responsibility. The second part focuses on the firm as conduit and the role that this type of company plays in contributing to shared responsibility. Similarly, part three focuses on the firm as content and its role in shared responsibility. In part four, a set of propositions is developed, linking the CVC model to shared responsibility. Part five offers some illustrative cases which are analyzed by using the CVC model. The paper ends with some conclusions and suggestions for further research.

2. METHODOLOGY

The current literature on the responsibility of firms in adverse incidents was critically reviewed, (for example in Sierra, Heiser, and McQuitty, 2009; Vargo and Lusch 2004; Maloo and Darrow, 2001, and Kachelmeier, 1994). A key variable has been identified as a determinant of the firm’s level of responsibility. The preface of the firm’s product or service is the marketplace. This variable is also an independent variable in the conduit versus content (CVC) model of the firm.

The next step in the development of the theoretical framework for this paper focused on
the introduction of the notion of degrees of separation of the firm from the transaction in the marketplace. This notion provides an empirical measure of the level of involvement of the firm in the adverse event. Such a measure can be used to mitigate the firm’s level of responsibility for the adverse event (Chicago Tribune, 2015; Dubbink and Putten, 2008).

Taken together, the CVC model was introduced in this context as a typology which may better explain how the firm as conduit or content differs in its degree of involvement in an adverse event in the marketplace. The CVC model advances the notion that firms differ in the degree of their presence in and contributions to the marketplace. Hence, by virtue of their nature as conduit or content, firms may have different levels of mitigated or shared responsibility for adverse events (Geisler, 1999; Heckman, 1984).

The relationship between the level of involvement of the firm in the marketplace and its responsibility also applies to other events, not necessarily of an adverse nature. Products or services provided by the firm to the marketplace entail corporate social responsibility in the form of post-sale service, insurance, guaranties, and embedded design and functionalities which are aimed at protecting consumers and the environment (Heugens and Dentucher, 2007; Pedrazza, 2014, and Rappe, 1999).

Based on the overall notions and their potential relationship, a set of prepositions is developed. The variables and the nature of their relationships are specified. Illustrative cases of both routine and adverse events are described. These -across industries – offer examples of the factors which impinge upon the firm’s shared responsibility in its presence in the marketplace (Goodpaster, Maines and Weimerskirch, 2004; and Gossling and Vocht, 2007).

3. WHAT IS THE CVC MODEL?

The Conduit Versus Content (CVC) model is based on the notion that firms can be
differentiated by the function they perform in the marketplace (Geisler, 2015). Such differences are a template of the quasi-genetic nature of the firm, and is consistent across sectors and industries. The CVC model classifies firms into two fundamental categories: the firm as conduit and the firm as content.

*The Firm on Conduit*

The firm as conduit plays the role of an intermediary or a go-between for those in the marketplace who transact in products and services. This type of firm serves as a link or an agent, facilitating the transaction and contributing to the successful competition. The firm as conduit does not necessarily produce, create, or manufacture the products, technologies, or instruments used in a market transaction.

For example, financial institutions such as banks, investment brokers and traders in securities are the intermediaries between those who possess slack resources and those who need such resources for their business transactions. Similarly, transportation firms move people from one location to another, thus contributing to the need and desire of participants in the marketplace to move people and merchandise between locations.

The firm as conduit serves a crucial function in the marketplace, by contributing to the efficiency of transactions in which this type of firm participates as a go-between. Table 1 describes these contributions.

| Table 1 About Here |

The *Rolodex Effect* is named after a small device containing cards with information on clients, suppliers, competitors and regulators with which the firm works and competes. The
advanced versions are computerized databases and reservoirs such as the “cloud.” For many firms as conduit these databases are the source of their strategic competitiveness and their key assets. For example, publishing firms and real-estate companies contribute to transactions in the marketplace based on their database of authors, printers, and designers, and in the case of realtors; data on properties, the attributes of locations, and data on actual and potential buyers and sellers.

The firm as conduit also brings to the marketplace several other contributions. This type of firm has the expertise, abilities, and experience that transcends those of the key parties to the transaction which the firm as conduit helps put it together. These attributes of the firm allow it to have and to maintain advantages of size, resources, specialization and quality of operation – all of which make this type of firm nearly indispensable in making the transaction a market reality.

Another critical attribute of the firm as conduit is that it does not create or produce the devices, instruments, technologies, knowledge and materials necessary for the transaction to exist. For example, airlines utilize aircraft produced by other companies. The training of their pilots and maintenance of the aircrafts are generated and dictated by the original manufacturer (Bradley and Sparks, 2002).

The firm as conduit also brings to the marketplace its ability and willingness to engage in tasks which are beyond what the transactors in the market are able or willing to undertake. Individuals and companies are willing to outsource their pursuit of funding needs to the financial industry: banks, investment firms, and securities brokers. The firm as conduit allows individuals and companies to engage in what they do best and to spend their time, skills, and resources on activities that allow them to compete in their markets (Geisler, 2015).
The Firm as Content

The firm as content has its locus of the market transaction internally. This type of firm drives and shapes the transaction and serves as one of the key parties to the transaction (Geisler, 2015).

The firm as content contributes to the marketplace with tangible and intangible outcomes. Table 2 lists and describes these contributions.

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This type of firm is actively involved in the market transaction. The more this firm creates its own content, the more it is also able to incorporate and to adapt its content from its environment (Lane, Koka, and Pathak, 2006). As such, the firm is an engine of the economy, by its ability to generate content (products, services, innovations, and technologies) and to bring it to the market transaction.

The firm as content has strengths and weaknesses. Its strengths are first, the relative resilience of its content to imitation and competition, and secondly, it enjoys some measure of protection given by governments in recognition of its ownership of intellectual property. The weaknesses focus on the impacts of the marketplace on the content. There are constant pressures which threaten the age and attractiveness of content (obsolescence and the continuing flow of new fads, styles, and preferences). The firm as content is under constant pressure to innovate, to adapt to the dynamics of the market, and to monitor the cumulative effects of these threats.

4. THE CONCEPT OF SHARED RESPONSIBILITY: ETHICAL CONSIDERATIONS AND CURRENT PRACTICES
The firm bears responsibility as soon as the product or service it makes is launched, purchased or used in the marketplace. This responsibility and the liability it incurs are ethical, social, and legal (Crane and Matten, 2007; Rinquist, 1997; and Smith, Palazzo, and Battacharya, 2010). Current practices focus on the industry to which the firm belongs and on the characteristics of the adverse incident, disaster, misuse, or malfunction of the product or service, in which damage has been caused and loss has incurred (Barney, Edwards, and Ringleb, 1992; Corporate Board, 1990; Saha and Hilton, 2000).

The firm’s responsibility in these instances is not absolute. There are mitigating circumstances such as negligence on the part of consumers or users, environmental or climatic variables, and unforeseen events leading to the adverse incident. These variables create a measure of shared responsibility, whereby the firm’s liability is shared by other entities who are also involved in the incident.

The key issue in sharing the responsibility and the subsequent liability is currently derived from the outcome of the analysis of the incident. What caused it? How did it happen? and, who contributed to the negative aspects of the incident? (Kim, 2010; Shrivastava, 1987). The emphasis is not on the generic characteristic or attribute of the firm – but on the nature of the product or service involved, and on the circumstances of the adverse impacts (DeGraaf, 2006; Piercy and Lane, 2006; Folkes, 1984).

The variables which determine the analysis of such adverse occurrences are also the determinants of the overall level of negative impacts, the damages that resulted, and the degree to which each of the participants in this transaction bears the responsibility and liability for the adverse occurrence (Wagner, 2009). These variables are within the domain of the adverse incident, so that the firm’s responsibility is calculated per the firm’s involvement as the maker or
owner of the product or service; the operation of the product or service, or the intermediary participant in the transaction (Chun and Kim, 2003; Sharkey, 2001).

For example, an adverse incident in the chemicals industry, in which dangerous chemicals are released into the environment, places the responsibility on the manufacturer and the operator using such chemicals – depending upon the nature of the incident. The disasters at Love Canal in the State of New York and in Bhopal, India, are illustrations of the focused responsibility of the industrial producers of the chemicals (Sharma, 2005; Saniels, 1999; and Ringquist, 1997). Conversely, an adverse incident such as the derailment of a train carrying cargo of dangerous chemicals would be likely to be considered the responsibility of the railroad firm, and other entities in charge of rail safety (Cairns, 1980; Freudenburg, et.al., 2008). The manufacturer of the chemicals bears little or no responsibility because the outputs from its plant had left its facilities and were within the preview and control of the rail operator. If, however, the manufacturer’s instructions for safe transport of the chemicals were unclear, ambiguous, or wrong, there is a share of responsibility to be borne by the manufacturer – as revealed by the analysis of the specific incident case (Boyer and Porrini, 2008).

The sharing of responsibility is thus dependent upon the post-factum analysis of the circumstances of the incident. The nature of the firm is not considered a crucial variable in determining liability. A company may be held responsible for one incident, yet bear only a small share of responsibility in a different incident.

DEGREES OF SEPARATION FROM THE MARKET TRANSACTION

Even in cases where the firm is not a direct participant in the adverse incident, it may be perceived as bearing some responsibility by virtue of its relationship to the product or service, as its manufacturer or marketer. In this paper, the notion of the firm’s shared responsibility is
dependent upon the degree to which the firm is separated from any market transaction, and in particular an adverse event (Georgiades, 2010; Tetlock, 2000).

The notion of degrees of separation is broadly defined as a measure of how distant is the firm or its outputs from a market transaction. This is also a measure of the firm’s presence in the market transaction: as an active participant or as an intermediary between the active participants.

This notion is created to provide an empirical tool which allows for a better metrics of the presence of the firm in a market transaction. Such a metric is a basic compound of the determination of the shared responsibility of the firm. The overarching hypothesis in the construct of shared responsibility is that the more distant the firm from the market transaction, the lesser burden of responsibility the firm will bear for the transaction and its consequences.

This paper proposes four degrees of separation:

**Degree One** (High Presence): the firm’s product or service is the key component of the transaction. For example: automobiles sold directly to consumers; hospitality firms offering hotel and food services to consumers, and professional firms offering services to consumers, such as legal, accounting or healthcare services.

**Degree Two** (Medium Presence): the firm’s product or service was sold to another company or individual and operated by the different company or individual. For example: the original equipment manufacturer of a locomotive sold the product to a railroad which operated the locomotive and trains in serving the traveling public.

**Degree Three** (Low Presence): the firm’s product or service was sold and operated by another company, but subject to strict regulations and control by a third party (e.g., government), to the extent that such intervention by the third party dictated the conditions or process of the transaction. For example: medical instruments used by healthcare providers under strict protocols
dictated by the government. Another example: construction apparatus such as cranes operated by construction companies.

**Degree Four** (Intermediary Presence): the firm is merely an intermediary agent, or go-between the parties to the marked transaction. This is the farthest that the firm can be from the actual transaction. Examples include: realtors, as intermediaries between buyers and sellers of properties; securities brokers who bring together services and buyers of securities; and banks, who serve as go-between owners of financial assets and those who need such assets.

This classification of the four degrees of separation is a useful tool in the positioning of the firm with respect to its share of responsibility for the market transaction. The individual degrees allow for the evaluation of the firm’s involvement in the transaction within a unique classification or category of participation. The four steps also help us to group similar firms in a separate standing as a participant in the market transaction. All these attributes of the scheme of degrees of separation are an advancement in the methodology of determining the firm’s level of responsibility beyond the simplified criterion of the industry to which the firm belongs at the time of the transaction.

Although the firm may be distant from the market transaction, it continues to bear ethical responsibility for the outcomes of the transaction. This is the moral benchmark of any participant in the marketplace. Perhaps it can be described as the price of admission: by the mere fact that a firm or other entity participates in a market transaction, it is encumbered with some measure of responsibility for the transaction.

Detractors of this view argue that in business transactions the responsibility of the firm is to increase profits and to add value to its shareholders (Friedman, 1983; Doane, 2005; Karnanai, 2011). However, in adverse events the firm is held responsible – within the legal parameters of
the assessment of damage, on a case-by-case bases (Cairns, 1980).

The issue is the firm’s fundamental or apriori effort to be socially responsible, even at the expense of economic advantages – or to focus on economic gains and fierce competition, and in case of adverse events, to bear the economic consequences of damages as the cost of doing business (Cressey and Moore, 1983; Mayer et al, 2012; Simons, 2013).

The debate on the role of social and ethical responsibility of a business enterprise is a well-documented fixture in the literature (Crane and Matten, 2007; Christiansen, Mackey, and Whetten, 2014).

This paper is not aimed at offering solutions to this long-standing debate. This paper proposes a conceptual framework which evaluates the firm’s shared responsibility by the nature of its involvement in market transactions and by its separation from such transactions.

5. THE CVC MODEL AND SHARED RESPONSIBILITY

The Conduit versus Content (CVC) model is a typology of the firm based on the level of involvement of the firm in a market transaction, and on the firm’s contributions to such transaction. This model is a good conceptual framework for the classification of the firm’s ethical, social, economic, and legal responsibility in a market transaction.

The two categories of the firm’s participation in a market transaction are the firm as conduit and the firm as content. Each category is further discussed in this paper. The differences between these categories provide a good set of criteria for the classification of the level of responsibility of the firm and to what extent such responsibility is shared with other entities who participate in the market transaction (Jensen, Gossling, and Bullens, 2011; Phillips, 1992).
The corporate source responsibility of the firm is defined as the impact of the firm and its outputs on both its customers and its physical, social, and economic environments (Bowman and Haire, 1975; Heugens and Dentcher, 2001). In addition to simply classifying the firm’s responsibility in terms of its generic participation in the market and the attributes of its product or service, the CVC model categorizes the firm in the more specific instances of what the firm brings to the market transaction, including the degree to which the firm is involved with the transaction.

**The Firm as Conduit Shared Responsibility**

Conduit market transactions are characterized by the firm’s participation as an intermediary, go-between, or a facilitator of the transaction. The firm thus provides a link between the key participants in the transaction. In some instances the firm or conduit also acts as an agent for one or both key participants or transactions (Tetlock, 2000). This type of agency differs from the use of agency theory by business ethicists (Heath, 2009), who explore relationship among executives within the organization. However, firms as conduit may be viewed as agents, acting among other firms, in a similar to the role that executives play internally in the organization. The firm as conduit has moral obligation and constraints in its involvement with key participants in the market transaction (Weisman, Guevas-Rodriguez, and Gomez-Mejin, 2012).

The firm as conduit participates in the market transaction in a much reduced role than the key participants. Conduit transactions may be viewed as “collaborative transactions.” The legal responsibility and the social and ethical variants are pre-established in a contractual arrangement of the collaboration. For example, transportation companies act as conduits between key participants who wish to send assets and those who wish to receive them. Transportation
companies who serve individuals wishing to travel, are also conduits, with a role of agents for these customers (Geisler, 2015; Maloo and Darrow, 2001).

The following propositions apply to the case of the firm as conduit:

Proposition 1: “Because of its nature, the firm as conduit has at least one degree of separation from the transaction, so that its responsibility is diminished, thus shared with other participants in the transaction.”

Proposition 2: “In cases of adverse events, the firm as conduit bears direct responsibility only to the extent of its participation in the transaction, so that if its participation is limited to the role of intermediary as agent for transactors. The share of the firm’s responsibility for the adverse event will be proportionately diminished.”

Proposition 3: “In case of adverse events, the firm as conduit bears direct responsibility only to the extent of its contributions to the market transaction. The lower the contribution, the higher the degree of shared responsibility with other participants in the transaction.”

Proposition One posits the firm as conduit at least within one degree of separation from the transaction, hence alone from any adverse event. As a generic type of conduit, the firm starts out with some distance from the transaction, therefore with a level of shared responsibility.

Proposition Two expands this classification of the firm as conduit and its level of shared responsibility. This proposition focuses on the degree to which the firm participates in the transaction. Firms as conduit have different levels of participation, have different degrees of separation. The lower the firm’s participation, the higher its separation, hence the higher its shared responsibility (Weisman, Cuevas-Rodriguez, and Gomez-Mejia, 2012).
Proposition Three focuses on the contributions of the firm as conduit to the market transaction. The lower the contribution, the higher the shared responsibility. The role that the firm as conduit plays in the transaction determines its contribution. For example, retail firms contribute to market transactions by providing adequate, safe, and convenient space for shoppers to conduct their market transaction – while these firms serve as an intermediary between manufacturers and consumers. Similarly, travel agencies contribute their skills and experience in linking passengers with transportation companies. The contributions of the firm as conduit vary by the resources expended by the firm, and its value to the transaction. For example, is the role of the firm as conduit critical to the transaction, or is it merely a contributor, but not essential to the successful completion of the transaction?

These propositions provide a framework for the analysis of shared responsibility, beyond the firm’s industry affiliation. Current practice in this matter has been a product of historical convention, in which the industry has been the well-entrenches dimension for the differences in the ethical responsibilities of business firms (Keane, 2015). The CVC model and the theoretical framework in this paper suggest that the ethical responsibility of the firm as conduit depends on the nature of the firm’s involvement with the transaction.

The Firm as Content and Shared Responsibility

The firm as content differs from the firm as conduit in terms of the intensity of its involvement with the market transaction (Geisler, 2015; Heugens and Dentchev, 2007). This type of firm generates or initiates the transaction by launching a product or service into the marketplace, whereby customers purchase and use them. This type of firm has very few degrees of separation from the transaction. Once a product or service is launched, the firm bears ethical, social and legal responsibility for the life of the product or service (Sharkey, 2001).
In some instances, the firm may acquire a product within the framework of a “secondary market.” Although the firm is not the original manufacturer, it commences a new market transaction, thus acquiring with the product much of the responsibility of the original maker of the product. This firm, operating in the secondary market, is considered a content firm, with one degree of separation more than the original producer (Mayer, et.al., 2012).

The firm as content contributes to the marketplace a variety of benefits. For example, it provides innovative products and services, and it adds vigor to the economic prosperity of society. Moreover, due to the competitive nature of this firm in its market transactions, its contributions include a wealth of products and services offered to the public at affordable prices.

The social and political institutions of the marketplace and society at large recognize the role of the firm as content and the risks and responsibilities that are inherent in the role it plays in market transactions and in economic and social welfare. The empirical manifestation of such recognition is the award of protection of the intellectual property of the product or services provided by the firm. This is a means for society to recognize and to reward the firm’s investment in the intellectual components of its products and services (Oren and Tabtia, 2014).

The protection of intellectual property is done mainly with the awarding of patents and copyright. Both are instruments of the economic and social policies. The firm as content creates the intellectual property which it then integrates into its products or services. The firm as conduit receives or appropriates such property, as a component of its role in the market transaction. For example, publishing companies are conduits, receiving their copyright from the authors who agree to publish their work with these firms (Georgiades, 2015; Johns, 2001; Oren and Talha, 2014). The policy of rewarding the firm as content thus extends to the firm as conduit.

This is targeted social policy, designed to encourage corporate risk-taking and innovation
– although it also constrains the effects of market competitions (Heugens and Dentcher, 2007; Dubbink and Putten, 2008). However, the firm as content also accepts social, ethical, and legal responsibility for its role in market transactions, measured with fewer degrees of separation than the firms as conduit.

The following propositions apply to the firm as content.

Proposition 4: “The higher the degrees of separation of the firm as content from the market transaction, the higher will be its sharing of its ethical and legal responsibility with other participants in the transaction.”

Proposition 5: “The higher the level of protection of the intellectual property of the product the firm as content transacts in the marketplace, the higher the formal ownership of the firm of its product – hence the lower the firm’s shared responsibility with other participants in the transaction.”

Proposition 6: “The more firms as conduit participate in the market transaction with the firm as content, the lower the sharing of responsibility of the firm as content with other participants in the transaction.”

These propositions suggest that the criteria that determine the sharing of responsibility by the firm as content are centered on the level of involvement of this firm in the transaction. Proposition 4 focuses on the distance of the firm from the transaction. Proposition 5 relates to the level of ownership of the firm in the product it has in the market transaction. Ownership is measured by the protection of intellectual property that the firm has been awarded. Finally, Proposition 6 suggests that when firms as conduit participate in the transaction with a firm as content, the latter will bear more responsibility, thus not being able to share responsibility with the firms as conduit. Conversely, if the other participants are also firms as content, then the firm
6. SHARED ETHICAL RESPONSIBILITY: DIFFERENTIATED BEHAVIOR IN THE CVC MODEL

As a participant in market transactions, the firm bears responsibility to the myriad of transactors, and to other participating entities, including those peripheral to the transaction. The firm is thus responsible to:

(1) customers
(2) vendors
(3) regulators
(4) competitors
(5) the physical environment

The firm is also responsible to the following entities which are indirectly involved with or connected to the transaction:

(1) Bystanders – not connected or involved in the transaction (for example: poorly installed glass window in upper floors of a city building fall to the ground due to high winds and damage individuals who happen to walk by on the street.)
(2) Society-at-large

The responsibility may be:

(a) Ethical and legal obligations, liabilities, and responsibility for adverse events;
(b) Ethical and legal obligations, liabilities, and responsibility to market transactors and to other entities who directly or indirectly participate in the transaction or are impacted by it.
The Firm as Conduit

Table 3 shows the degree to which the firm as conduit shares its myriad of obligations, liabilities, and responsibility in the specific cases of participants in the market transaction. Each cell in the table portrays the type of behavior which the firm exhibits in its role in the market transaction.

Several of the attributes of behavior in Table 3 show a level of shared responsibility of the firm as conduit. The quality or performance of the product or service depends on the product, instrument or device made by the original equipment manufacturer (Folkes, 1984). For example, transportation firms depend on the quality and performance standards of aircrafts, train locomotives and cars, buses, or boats and ships. Similarly, the availability of products or services depend on the specifications of the original equipment, such as the range of transport vehicles.

The firm as conduit abides by laws, regulations and standards to the extent that the original equipment or supplies permit such behavior. For example, publishing firms may publish offensive materials, thus infringing on ethical standards of morality. Yet, the material is supplied by authors, so the publisher may have failed in vetting the material by means of thorough editorial scrutiny. Also, pollution control depends on the technology available to the firm or conduit, such technology being supplied by the original equipment manufacturers.

Pollution control responsibility for the firm as conduit also depends on the level of restrictions imposed by regulations. Noise abatement for airplanes flying over densely inhabited
neighborhoods and municipal ordinances prohibiting or limiting the use of alarm klaxon by locomotives in certain hours are examples of the impact of regulations.

Avoidance of market wars is a pattern of behavior whereby the firm as conduit, for example, refrains from engaging in price wars which may be harmful for their customers, suppliers, regulators and competitors. Retail firms may lower their prices to the point of forcing competitors out of business, but by doing so they may sacrifice quality or services, thus, negatively impact their customers and the reputation and brands of their suppliers. Nonetheless, the firm as conduit shares responsibility for market wars with its competitors – who are held equally responsible for their own behavior in this scenario.

In the instances described above, the behavior of the firm as conduit is bounded by the technological and performance capabilities of the equipment the firm utilizes to perform its role in the marketplace. This function as conduit limits the firm’s actions in the marketplace. However scrupulous the firm’s behavior is in several attributes, its freedom of choice and manipulation is construed by the outputs generated by others. Thus, the firm as conduit shares responsibility for its participation in market transactions with these other entities.

A good example is the case of passengers of British Airways who, in November 2015 filed lawsuits against Boeing and General Electric. The left engine of the aircraft, a Boeing 777-200 caught fire before takeoff on September 8, 2015. Passengers had to flee the the aircraft to safety. There were no causalities. Passengers sued the manufacturers of the aircraft and the engines rather than the airline, arguing that the aircraft was “defective and unreasonably dangerous” (Chicago Tribune Wire Report, 11/2015).

Some exceptions are noteworthy. Airlines and railroad firms have control over the architecture of their passenger cabins or cars, thus influencing the parameters for safety of their
customers. Retail stores have leeway over the design of their shopping experience, to make the transaction a pleasurable event (Bradley and Sparks, 2002; Sierra, Heiser, and McQuitty, 2009).

**The Firm as Content**

Table 4 below depicts the degree to which the firm as content shares responsibility with other participants in its market transaction.

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**TABLE 4 ABOUT HERE**

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The quality or performance of the product or service provided by the firm as content is the core of the firm’s contribution to the market transaction. The firm creates the product or service and launches it into the marketplace. The same is true for firms in secondary markets – with the key difference that these firms do not create the product but they nonetheless transact in it as if the product is their own creation (Chun and Kim, 2003).

The firm as content is fully engaged in assuring the quality and performance of the product or service it transacts in the marketplace. Adverse effects from malfunction of products due to poor quality are the responsibility of the firm as content, because this firm has in this instance no degrees of separation from the market transaction. For example, structural or functional defects in equipment and machinery, such as automobiles, construction cranes, earth moving machines, airplanes, or heating and cooling and household appliances are the responsibility of the manufacturer and cannot be shared with other participants in the transaction – such as retailers or regulators.
An exception to the firm as content sharing its responsibility in the quality and performance of products or services is, for example, the case of healthcare delivery organizations (Corporate Board, 1990). Hospitals which use equipment, instruments, technology and pharmaceuticals will share their responsibility for poor quality or performance of these components of the care they provide – with the manufacturers. The added skills and knowledge which hospitals engender in the use of these components of care are the content that hospitals contribute to the marketplace. In this latter case, hospitals bear the responsibility for adverse events due to poor use of the knowledge, such as cases of misuse of instruments, poor clinical judgment, or other forms of malpractice (Geisler, 2009).

Honesty in advertising and other business behavior are also the sole responsibility of the firm as content. The well-publicized cases of Toyota and Volkswagen, where the firms as content failed to disclose defects or misleading programs embedded in their products are examples of breach of a code of ethics, thus impacting customers, suppliers, and regulators. Competitors are also impacted in that such unethical behavior puts them in a competitive disadvantage.

Availability of a product or service is the responsibility of the firm as content and usually cannot be shared with other participants in the market transactions. For example, the availability of parts for consumer products such as automobiles and appliances is crucial to the ethical completion of the market transaction. The firm as content cannot share this ethical responsibility to each franchisee of raw material for the timely preparation of advertised meds is the sole responsibility of the parent company.

Similarly, in the healthcare sector, the availability of medical services is a key element in the social and ethical responsibility of the health care delivery organization. Regulators tend to
monitor and regulate multiple aspects of the delivery of care, including the availability of facilities and type of care, such as clinical specialties.

Issues of pollution control, avoidance of conflicts in the marketplace and abiding by regulatory demands are also the responsibility of the firm as content, and is not shared with other participants in the transactions. Responsibility is shared in cases where other participants are key contributors to the transaction, such as the role competitors play in avoiding market “wars” or the role of regulators in defining and monitoring environmental regulations.

7. ILLUSTRATIVE CASES

This section offers two illustrative cases of the different classification and behavior of a firm as conduit and a firm as content. The purpose of these cases is to exemplify how the CVC model provides an analytical platform which helps to explain the different degrees of shared responsibility of the firms in their marketplace.

The Firm as Conduit: The Case of Uber in the Sharing Economy

Uber Technologies is a prime example of a firm as conduit. Established in 2009 as a luxury car service, it rapidly expanded by launching a mobile smartphone application which allows customers to order a ride, obtain a price quote and be served by individual drivers who offer rides in their own private cars (Cusumano, 2015).

The Uber business model is an example of a firm in the new “sharing economy.” Assets such as a spare room, apartments, or private automobiles are utilized in direct links between the owners of the assets and those who desire them. Companies in the sharing economy are the “go-between” owners and potential customers (e.g., Uber, Lyft, Airbnb, Flipkey).

In these shared transactions, Uber in effect manufactures the transaction by bringing together asset owners and potential customers. Unlike traditional taxi companies, owner and
customer do not handle the financial aspects of the transaction. That is, money does not change hands (except in some instances when direct tipping is allowed). The customer negotiates with Uber, by accepting or rejecting the price for the ride, and if accepted, the customer pays Uber directly. Uber is an “absent agent”, serving as the conduit for the transaction – while this firm may be geographically distant from the laws of the transaction, in another city, country, or continent.

With this business model of the shared economy, Uber utilizes a niche or a gap in the market, whereby standard regulations of companies and their market transaction can be by-assed. Since the transaction is effectively between individuals (peer-to-peer), the commercial aspect of the transaction, is conducted away from the transaction, by a third party or a firm as conduit (Malhotra and Van Alstyne, 2014).

Uber is several degrees of separation from the transaction, hence its ethical responsibility for a transaction is shared with the owner of the car used in the transaction. In the few years since its inception, there have been several incidents in which Uber drivers have been accused of unethical behavior, including cases of kidnapping of passengers, attacking passengers, and in a well-publicized case in Indiana, the alleged rape of a passenger (Steinmetz, 2014).

Due to its high degree of separation from the transaction, Uber was not held responsible for the alleged breaches of ethics and law by its drivers. Critics of Uber have complained about the company’s lack of oversight and training of its drivers. Nonetheless, these incidents have fueled the actions by Uber’s competitors and government regulators to impose regulatory control over Uber – as if the company is a traditional participant in a transportation transaction (Geron, 2012). Similarly, some Uber drivers have asked the courts to declare them “employees” of the company, thus eligible for salary and benefits. Such requests challenge the business model of the
sharing economy, and the peer-to-peer aspect of the firm as conduit.

If such requests are granted by the courts, and government regulators impose added controls, there will be a reduction in the degrees of separation between Uber and its market transactions. The consequence will be a sharp reduction in Uber’s shared ethical responsibility, so that any future misconduct by Uber’s drivers will be the responsibility of the company.

**The Firm as Content: The Case of a Hospital**

The healthcare delivery sector is composed of firms and institutions which are classified as content. Hospitals transact in knowledge (Geisler, 2009). They contribute to market transactions by providing care to patients, through the use of the skills and experience of their clinical staff.

This is a case of a hospital in a large metropolitan area. The hospital provides care to a wide variety of patients from different socio-economic backgrounds. As a trauma center, the hospital also provides emergency care. All care giving in a direct transaction between provider and patient. Even in the application of telemedicine, in which technologies of telecommunication, the Internet and imaging are used to diagnose and consult with patients and their caregivers remotely – the interface between caregiver and patient remains a direct and interpersonal exchange.

The hospital is a firm as content. It generates the content of care and delivers it to the patient. The hospital also utilizes instruments, medical technologies, software, and other tools it requires to provide “best available care.” In the case of adverse events, the hospital shares responsibility with the makers of these medical devices, instruments, and technologies.

The hospital has very few degrees of separation from the transaction. It bears the responsibility for adverse events, shared to an extent with its suppliers (if the instruments or tools
are defective), and with its staff caregivers, if there are cases of malpractice (Chris Stern, 2011).

Although the hospital has an excellent system for quality control, medical errors did happen, and the hospital was subjected to malpractice litigation (Nicholson and Mitchel, 2008). The case involved a problem with continuity of care, and miscommunication among various caregivers within the hospital, culminating in a fatal event. The hospital shared the responsibility with a defective computer program, but as a content organization, it had to bear most of both the ethical and the legal responsibility for the event.

8. IMPLICATIONS

There are several implications for practice of shared ethical responsibility based on the CVC model. These include lessons for firms and organizations involved with both conduit and content companies.

Insurance companies may reassess their system and criteria for allocating responsibility for adverse events – so that a classification scheme can thus emerge within a more precise notion of who bears the responsibility for the event. For example, firms as conduit, with a high degree of separation from the market transaction, may be, in principle, entitled to a lower insurance premium than a firm as content.

Investors concerned with the social responsibility programs of companies in which they consider investing, may wish to reassess their criteria for investing. For example, firms as content, with low degrees of separation from the market transaction would need to provide investors with a more aggressive program of corporate social responsibility before investors make their final decision.

Regulators may wish to adjust their criteria and standards to the CVC model. For example, an important criterion for ethical or environmental protection behavior should be based
on how distant the firm from the market transaction and what are its contributions to the transaction.

9. CONCLUSIONS AND FURTHER RESEARCH

One of the objectives of this paper is to redirect the focus of the analysis of the locus of ethical responsibility of firms from the case-by-case mode to the CVC model, based on the classification of the firm as conduit or content. This model was shown to provide a template for analysis of shared corporate responsibility which supplements the case-by-case analysis normal as well as of adverse events. In this paper, I developed a model of the firm’s distance from the market transaction. In this model, firms as conduit have higher degrees of separation from the market transactions, hence a higher sharing of their corporate ethical responsibility with other participants in the transaction. Conversely, the firm as conduit has fewer degrees of separation from the market transaction, hence bear a higher share of corporate ethical responsibility.

Similarly, the model also relies on the level of contributions of the firm to the market transaction. The firm as conduit has a temporary and low level of contribution, whereas the firm as content has a higher and more permanent contribution to the market transaction. This difference also reflects the different levels of shared responsibility of the firm with other participants in the transaction. Firms as conduit have higher levels of shared responsibility.

The implications for research and practice are also discussed. Insurance companies and government regulators, for example, can greatly benefit from the CVC classification of the degrees of shared responsibility of firms as conduit or content. The CVC model allows insurers and regulators a more precise tool to assess the risks involved in a market transaction and the potential shared responsibility of the participants in the transaction. In adverse events, this model lays the foundation for further evaluation of the event on a case-by-case basis.
Further research should focus on the following topics. First, we should explore known cases of adverse events in selected industries and sectors, and apply to these cases an analysis based on a renewed perspective with the CVC model. Second, explore a matrix of industries and their classification with the CVC model: how ethical and corporate social responsibility differ—if at all—within and between industries such as banking/investments; education; manufacturing; services such as healthcare delivery, and government. The research questions would include: is the assessment of risk with the CVC model better explains the shared responsibility of firms in specific known adverse events? and: if we classify industries as conduit or content, are there differences in the manner and the metrics in which risk and assignment of ethical responsibility by insurers or government are conducted and analyzed?

The analysis with the CVC model thus opens some exciting new avenues for the study of shared ethical responsibility of firms in market transactions. This analytical template differs from an analysis where “one size fits all”. Not all firms are alike, since the CVC model differentiates between firms as conduit, with a more limited participation in the market transaction, and firms as content, which have a more intense role in the transaction.
10. REFERENCES


<table>
<thead>
<tr>
<th>CONTRIBUTION</th>
<th>WHAT THE FIRM AS CONDUIT BRINGS TO THE MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>The “Rolodex” Effect</td>
<td>A database of customers, suppliers, competitors and regulators; established track of relationships with them.</td>
</tr>
<tr>
<td>Task Beyond what the Parties Can or Wish To Do</td>
<td>Expertise, experience and abilities beyond those of the parties to the transaction: e.g., severity; safety; multi-tasking, etc. The firm as conduit gives the parties a sense of reduced ambiguity and less uncertainty in their dealing with turbulent environments.</td>
</tr>
<tr>
<td>Advantages of Size &amp; Resources</td>
<td>Ability to simultaneously handle a large number of transactions – e.g., account holders, passengers, customers.</td>
</tr>
<tr>
<td>Economics of Scale</td>
<td>Size allows for less costly performance of transactions.</td>
</tr>
<tr>
<td>Level of Specialization</td>
<td>Transactors are not equipped nor have specialized skills, experience, knowledge or training to complete the transaction.</td>
</tr>
<tr>
<td>Routineness and Repetitiveness, Quality and Performance</td>
<td>The firm as conduit mastered the routines and repetition of the transaction over time and countless times, whereas transactors may do it less frequently. By continuous presence in the market, the firm as conduit creates its brand.</td>
</tr>
</tbody>
</table>
### TABLE 2
THE CONTRIBUTIONS OF THE FIRM AS CONTENT TO THE MARKETPLACE

<table>
<thead>
<tr>
<th>CONTRIBUTIONS</th>
<th>WHAT THE FIRM AS CONTENT BRINGS TO THE MARKETPLACE</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. TANGIBLES</td>
<td></td>
</tr>
<tr>
<td>Innovations</td>
<td>New and improved products, methods, services, ways and means of production, distribution, and management</td>
</tr>
<tr>
<td>Investments to improve the “source of content”</td>
<td>The firm invests in intellectual assets and knowledge of its human resources, thus creating a knowledgeable and skilled workforce</td>
</tr>
<tr>
<td>Standards and benchmarks</td>
<td>The firm develops and helps to establish standards and benchmarks/measures of economic activities</td>
</tr>
<tr>
<td>II. INTANGIBLES</td>
<td></td>
</tr>
<tr>
<td>Cooperation and sharing with other entities</td>
<td>The firm collaborates with other firms, government organizations and not-for-profit, thus sharing its knowledge and experience and adding to the pool of knowledge in the market</td>
</tr>
<tr>
<td>Inputs to the cultural landscape</td>
<td>The firm contributes to and helps to shape the cultural attributes such as: fashion, consumer preferences, and technologies</td>
</tr>
<tr>
<td>Inputs to the general welfare and the standards of living of the general public</td>
<td>The firm’s outcomes, such as innovative and affordable products in hygiene, medicine, recreation and education elevate the overall standard of living and the health and longevity of the population</td>
</tr>
</tbody>
</table>
### TABLE 3

**SHARED RESPONSIBILITY AND BEHAVIOR OF THE FIRM AS CONDUIT**

**PARTICIPANTS IN MARKET TRANSACTIONS**

<table>
<thead>
<tr>
<th>ATTRIBUTES OF BEHAVIOR</th>
<th>CUSTOMERS</th>
<th>SUPPLIERS/VENDORS</th>
<th>REGULATORS</th>
<th>COMPETITORS</th>
<th>PHYSICAL ENVIRONMENT</th>
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<tr>
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</tr>
<tr>
<td>Honesty (e.g., in advertising)</td>
<td>HR</td>
<td>HR</td>
<td>HR</td>
<td>HR</td>
<td>HR</td>
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<tr>
<td>Availability of Product/Service</td>
<td>SR</td>
<td>SR</td>
<td>SR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pollution Control</td>
<td></td>
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<td></td>
<td></td>
<td>SR</td>
</tr>
<tr>
<td>Avoidance of Market Wars</td>
<td>HR</td>
<td>HR</td>
<td>HR</td>
<td>SR</td>
<td></td>
</tr>
<tr>
<td>Abiding by Laws, Regulations and Standards</td>
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</table>

**Notes:**

- **HR** = *High Level of Responsibility*
- **SR** = *Shared Responsibility with Others*
### TABLE 4

SHARED RESPONSIBILITY AND BEHAVIOR OF THE FIRM AS CONTENT

**PARTICIPANTS IN MARKET TRANSACTIONS**

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