

The Challenges and Opportunities of a New Business Economics Journal

JOSÉ AMADO DA SILVA

Rector of Universidade Autónoma de Lisboa

THE LAUNCH OF THIS NEW JOURNAL was decided following extensive consideration of its needs and usefulness in view of the creation of the Research Centre in Economic and Business Sciences and the two-year preparation of a submission for approval of a PhD program on Business Economics.

As Rector of Universidade Autónoma de Lisboa Luís de Camões, I must congratulate Professor Mário Coutinho dos Santos and all those who, as members of the board of the Research Centre and its Consulting Board, have carried out this challenging task. However, more than congratulate, I would like to thank them for their effort in all the referred activities, as well as thank the Board of Administration of Cooperativa de Ensino Universitário, UAL's founding entity, and the support they provided with the launching of this journal.

I must also express my personal satisfaction as a Chemical-Industrial Engineer holding a PhD in Economics, and specializing in Industrial Economics (Organization), as this allows me to reflect on the objectives and contents of this journal, which will be a new, innovative and unique journal.

Let us start by analyzing its name “European Review of Business Economics” and focus on the adjective “European”, which expresses more than a mere geographical reference, but rather the concern to contribute to an approach rooted in the specificities of Europe while considering the more encompassing context that globalization imposes.

We must not, however, view this as a European, almost “nationalist” perspective to the detriment of all other major geographical areas of the globe. Nevertheless, given the current situation, which appears temporary, a revision of globalization is crucial. That revision and restructuring should be carried out with the contribution of Europe, which must present itself as a relevant partner to a solidary construction of new globalization, one in which diversity is not questioned but acknowledged as structural.

In fact, considering the historical responsibilities of Europe mainly towards Africa, Latin America and part of Asia, and the specific responsibility of Portugal in this context, it is evident that cooperation must be widened and that more research should be published by national researchers.

Articles and statistical information in “The Economist” (112-02-2020), in the section “Free Exchange – A question of illumination” evidence these ideas, drawing attention to “The problem with favoritism” (p. 68). It is stated that “for much of its history, economies have examined a very narrow set of countries. An analysis by The Economist of more than 900,000 papers published in economic journals (see graphic in detail), finds that as recently as 1990, roughly two-thirds

of published papers focused on rich English-speaking countries: America, Australia, Britain, Canada and New Zealand”.

The situation is bound to change, since there is an increased focus on the economy in other areas of the globe in empirical projects, although there is still a very low number of studies on African countries.

We must also emphasize that the standards of economic research are justified by a few factors, the most significant being the size of a country's economy, as well as data quality and availability, and, to a lesser extent, the use of English, since “About 90% of the papers in our sample are written in English”. Therefore, African countries are expected to be much less studied, as about two-thirds of the papers “about African economies published in the leading five economic journals focus on just five countries: Kenya, South Africa, Ghana, Uganda and Malawi”.

This is even more evident in the charts (p. 81). The most visible title is “Starving from knowledge”, and the subtitle “Economists look at more than GDP when choosing countries to study”, in which the weight of the English language is evident.

Therefore, a new journal must fulfill the need for knowledge beyond that related to a specific country's economy and its GDP as the only measure of interest. Globalization is much more than a game among nations. It involves, many cross-sectional aspects (transnational companies, production chains, climate change and the almost ubiquitous world wide web).

These are the new challenges that a journal must address to become influential. To be innovative in terms of topics is not enough, if it is not written in English, it will not be recognized and, consequently, influential.

This is a restriction, and restrictions must be faced in order to be overcome.

We should now focus on the journal's name and content, i.e., why it was given the name “Business Economics”.

This choice, like any other choice, has an opportunity cost. This cost is, as we know, the value we assign to “the best opportunity we set aside” and, obviously, to all those that were not chosen.

The issue is that choice, identifying the “best”, implies criteria and, in this case, criteria must be differentiation. Differentiation is emphasizing a quality (in this case, a novelty) within a specific set. This is not the same as diversification, which is not this journal's objective.

Perhaps the most sensible way of describing this differentiation is to go to the website of “B-on” and type “Business Economics”. The results will show that there are many references to “Business & Economics” rather than to “Business Economics”. This is the differentiation we were looking for, suggested by the inclusion of “&”. As a word that expresses addition, “&” adds the word “Business” to the word “Economics”, as in the name of the Business and Economic Sciences Department. “Business Economics” instead blends the two words.

This combination naturally implies that the two mutually influence one another and leads us to conclude that they are not independent, as the “&” indicates and what, in practice, is often felt among professionals and even scholars.

This apparent, but never effective, separation between Business and Economics was a consequence of the roots of economics being set aside. The classics always designated Economics as Political Economics. This dangerous separation has also led to the development of economic theory as separated from real life. This is made evident in a model that was dominant for far too long – the static, mechanistic model of market performance, making it a *deus ex machina* of economic performance.

This has made business almost independent from society's interest, as stated by J. Maurice Clark more than a century ago (1916) in his article "The Changing Basis of Economic Responsibility". The author criticized those friends who, having altruistic concerns in other fields, declared that "business is business" and placed those concerns aside (isn't that still true today?).

That perspective, designated liberal economy and linked to the prevailing static theory, stated the neutrality of the economy's social responsibility through separating business from all other aspects of life. A separation that was in line with the mechanistic market model that was (or has been?) dominant for many decades.

It thus concluded that theory and practice combined for generalized irresponsibility that was true for labor representatives and employers.

The most interesting aspect is not only did this perspective introduce ethics when conducting business (p. 221), but it also advocated that "business economics is inadequate and needs revising, at least at certain points".

After all, the blended concept of "business economics" is still today rooted in time and the prevalence of "Political Economy". This journal aims to review, update and innovate the concept.

Michaela Hasse (2017) – in an extensive article where she refers to the article by J. Maurice Clark – develops the approaches to "economic responsibility" Clark created and considers Clark's (p. 461) contribution seminal to the definition of a model "for economic responsibility and a society's business ethics in practice".

Yet, the discussion on the content of "business economics", as that by Michaela Hasse, should be considered within its historical context, in particular, in the university system in the USA. Hasse mentions that (p. 463) J. M. Clark, who was appointed to Chicago University in 1915, probably met many of the most famous institutional economists there, at a time of major public debate about "business schools".

As referred to in the text (p. 462), although at the turn of the century "economics" was already an established course in American universities, it was nothing compared to "today's managerial studies or business administration". There was a huge debate around its usefulness and role in major issues, such as: "Can business be taught? If so, should it be taught at a university?"

According to Abend (2013, p. 177), one of the most important arguments presented by those advocating the existence of such schools at university level was that of linking them to the "moral and social objectives and service to society".

This way, "business ethics" was placed at the core of public debate on the legitimization of university "business schools", unlike the prevailing idea of

many authors and actors during the 20th century that “business is business” and “ethics is ethics”. Nevertheless, reference to “social responsibility economics” has appeared in some scientific papers and has been visible in some institutional and corporate positions.

In the early 20th century, J. M. Clark became relevant in this context as he raised issues on the blend “business economics”, with the same occurring to Leon Marshall, whom M. Hasse (p. 463) refers to as the “dean” of the “business school”. Quoting Abend (2013), M. Hasse mentions Marshall’s concept of the school and emphasizes the design of its study plan, which included “business, philanthropic, political and social studies” (p. 183).

This social and transversal perspective on the “business school” is that of J. M. Clark (1918), expressed in two articles in the “*Journal of Political Economy*” under the title “Economics and Modern Psychology”. Here, the author stated that he considered psychology relevant in “business economics” and emphasized the interdisciplinary nature of “business economics”, whose concept he deemed should be revised.

We must not forget that this paper was written near the end of WWI (in 1916), a time when the following statement is crucial (p. 1) “War means sudden and huge mobilizations in industry which overtax the “natural” mobility of free economic agents. It treats industry first and foremost as an instrument of national service, not for profit, and find the two in some respects incompatible... It dethrones exchange value as the guide of economic life and enlists and educates the consumer to buy what is for the national good”.

The issue is how to reconfigure the concept. The author adds that a new model is urgent, yet undefined, but necessarily different from that of the past. It is in this context that he refers to Psychology, saying that (p. 3) “the present series of papers starts with the attempt to square economic theory with modern psychology”, concluding that this will necessarily lead to the hypotheses of the prevailing static models being abandoned.

Noteworthy is his subtitle (p. 4) “Why economists should study Psychology”, advising that “the economist may attempt to ignore psychology, but it is a sheer impossibility for him to ignore human nature, for his science is a science of human behavior”.

This marked the shift from a structuralist to a behavioristic perspective of economics that should underlie all decision-making and all contracts. Hence, the development of “Behavioral Economics”, which also implies “Business Ethics”, whose actual implementation depends on the economic and social environment being evidenced in objectives and behavior in which Ethics prevails. What sense is there in demanding that a business owner has ethical behavior when the general social environment does not fulfill but rather contradicts basic ethical principles? It is obvious that, in such a competitive environment, business owners who want to behave ethically find themselves in unfavorable circumstances and at the risk of having to abandon the market. Examples of this are the complaints against social dumping, eco-dumping, tax evasion (either hidden or legal through the use of tax havens that result in tax dumping).

Therefore, it is reasonable to admit that one of the areas of Economics that may be incorporated into Business theory is Industrial (Organization) Economics and its developments.

It is true that the ultimate objective of Industrial Economics is a global assessment of market performance (the definition of market being one of the greatest practical and methodological challenges faced by Economics) rather than, as it is still sometimes mentioned, the linear application of the Paradigm “Structure – Behavior – Performance”, a structuralist approach, in which behavior (and strategy) are almost determined by the market structure.

The perspective we propose is a methodology of analysis that has altered that paradigm, a shift conducted by F. Scherer (1980) and Scherer and D. Ross (1990), as well as its development, interpretation and configuration (J. Amado da Silva, 1991, p. 70-72, 304-309).

One of the first differences in relation to the mentioned structuralist paradigm is the introduction, in the new version, of what F. Scherer designated ‘Basic Conditions’. These conditions are different for supply and for demand.

This introduction represents a complete break away from the classical paradigm since the analysis to be conducted is shaped and changed by this introduction. There is no longer one solution based on the uniformity underlying the classical paradigm. However, we should mention that Mason (1939), considered one of the grounding figures of the classical paradigm, already referred to those conditions although he considered them dependent on technology alone.

Interestingly, M. Spence (1981) rather than ‘Basic Conditions’, preferred the “Exogenous Structure” qualification, namely for technology (following Mason) and the functions of production, because, according to him, they would not be dependent on company behavior or that of their clients.

Before describing the ‘Basic Conditions’ in F. Scherer & D. Ross (1990), it is important to discuss a crucial difference between that version and the one published in 1980.

In the 1980 version, “Public Policy” was listed as one of the basic conditions in terms of supply used to define the “industrial market” (the actual object of industrial economics), while in the 1990 version, this is no longer one of the basic conditions appearing in a “box” outside the 1980 linear diagram, which links it to the boxes in the linear diagram of structure and behavior. However, the most important aspect is that this was not a mere change in position, since, in place of “basic conditions” in terms of supply, where “public policy” was, “legal framework” now stands, the “rules of the game” imposed by the legal system, thus separated from public policy. This makes the Government an active market player, as well as lays down the legal framework for economics.

(Governmental) Public Policy influences (it does not determine) the structural conditions for markets (for example, via antitrust actions), as well as company behavior (for example, through any type of incentive).

Finally, because of its symbolism as a preview of what is now the concept of “entrepreneurship”, the presence of “entrepreneurship” among the basic

conditions in terms of supply is remarkable and evidences the role this has in the appearance and functioning of actual markets.

Besides the “Basic Conditions”, it is important to evidence an essential aspect of the functioning of actual markets – dynamics. This is made evident through the existence of feedback relations among several elements in the paradigm, breaking away from the mechanist linearity of the initial model and emphasizing the key role of behavior, regarding the defense of the link between Industrial Economics and Business Economics. The fact that the role of behavior is acknowledged, although not separated from the dynamic relations with the other elements of the Paradigm and their mutual influences, contributes to the configuration of ‘Business Economics’. It is true that, by focusing on this core role, you run the risk of merging ‘Business Economics’ and ‘Behavioral Economics’. Yet, we must acknowledge that this merger results from the need to evidence the role of behavior in people, groups and institutions, in the functioning of the economy; a role that, within the field of economic models, was a subordinate, perhaps even a forgotten one, for a long time. It is rather interesting to recall the expectation generated by the appearance of the theory of games in 1944, by J. von Neumann and O. Morgenstern (1944). The title of the book, “Theory of Games and Economic behavior” emphasized “Economic behavior” and the use of the game theory as a tool.

It was acclaimed as an example of interdisciplinary work and as a book that would revolutionize teaching and approaches to economics.

However, it did not meet such expectations for some time, since the theory of games, based on agent rational interaction, was more widely used in the military field than in economics. Economics picked it up decades later although it maintained its axiomatic base and limited behavior to non-cooperative games, as evidenced in the syllabi of the courses in which the theory of games was taught.

The theory’s later developments overcome some of its limitations, but, at that time, attention to people’s and institutions’ behavior was already visible and, because of that, the axiom of rationality was already in question.

Scherer (1980), on the other hand, included price policies, production strategies and advertising, research and development, investment policies and even, with incredible realism, legal tactics, in the behavioral field. The author supports his focus on the essential components of business, which include the behavior of all market players, in particular, that of company management.

This tour of F. Scherer’s approach is a tribute to his role in the study of actual markets (a role not fully acknowledged). In fact, it raises the question can you address business economics and not have actual markets as the final target? The appearance of the so-called New Industrial Organization in teaching and research, whose most significant work is that by J. Tirole (1988), recovered the axiom and broke away from actual markets, as shown in the author’s assumption (p. 13) that the market is well defined and has little interaction with the rest of the economy, invoking the difficulty in defining a market.

You should not infer that those theoretical developments are irrelevant to the advancement of Industrial Organization, and least of all, that all the author’s

later work was not extremely relevant for several fields in economics and finance, in close connection with social reality, rather that, because it was focused on a more axiomatic research logic, his work somewhat hindered other approaches to industrial organization that developed at the same time.

Herein lies the defense of F. Scherer, whose academic production, never alienated but rather fostered this field, and due to his pedagogical concerns, developed over decades. From his first major book, written in 1970, with the same title as those published in 1980 and 1990, a dynamic trilogy with a new edition every decade, there is evidence of the author's concern to adapt to new theoretical approaches (and teaching of the fields in Industrial Organization) and to the growing knowledge of actual markets in continuous change. This is shown through his attention to the "Basic Conditions" (from which "Public Policy" was eliminated) and, not less relevant, through the complete set of objectives he named "Performance".

This tour would be incomplete without a reference to a book (F. Scherer, 1996) published after the trilogy, in which the author places special focus on "Public Policy", as well as on some changes to the content of "Performance", a consequence of the author's observation of the American economy at the time. When referring to his first book (1970), the author confessed that "To regurgitate what was in my book would be incredibly dull both for my students and myself. This dilemma became the mother of invention for the term beginning in January 1971. I initiated a new undergraduate course that sought to teach "I-O" through a series of in-depth industry case studies", adding that these programs were the most successful in three decades of teaching and concluding that "Blending real-world industrial history, theory and policy is a powerful way to convey to students what industrial organization economists know".

What better link to "Business Economics" than this appeal to the use of case studies (there are 9 industries in this book)?

The best example for the last argument on this close connection is Michael Porter and his book (M. Porter, 1980). Porter, when introducing his first edition, diverted "industrial economist" to the field of corporate strategy. He explained the shift as a natural consequence of how his knowledge and research interests had evolved. In fact, in that same year, when relevant texts on Industrial (Economy) Organization were scarce, I bought a set of them, among which were those by F. Scherer (1980) and M. Porter (1980).

Scherer's work, in particular, the versions he named "Performance" not only emphasize this connection, but are rather current, as may be acknowledged in the topics included: production efficiency and allocation, technological evolution, full employment and equity.

It would not be difficult to confirm that this option anticipates, by a few decades, most of the challenges that the topic Social Responsibility poses to company behavior; it is another 'bridge' to business economics, and its underlying ethical principles. This is in opposition to the neutrality of the competition model aimed at maximizing profit unless there are other restrictions, namely, legal,

which impose restraints to behavior. And that is only effective if society itself is guided by at least one of those principles.

G. Akerlof and R. Schiller (2015, p. Xi), while recognizing that competitive markets are excellent at awarding innovative “heroes”, add that, in unregulated free markets, they seldom reward those who do not take advantage of consumers’ weaknesses, either psychological or informative. Given the competitive pressure, managers that act this way are, generally, substituted by others “with fewer qualms”. However, very realistically, they refer that although “civil society and moral norms do place some breaks on such phishing... even firms guided by those with real moral integrity usually have to do so in order to compete and to survive”.

This makes it obvious that the social and economic environment (the “basic conditions”) shape the behavior of institutions and their managers, and the expression “business is business”, which J. M. Clark mentioned in 1916, becomes understandable (not that one necessarily agrees with it).

The complex concept of “performance”, which Scherer did not consider static but adaptable to circumstances and theoretical developments, shows that besides the ethical controversies and given the competition (not the incompatibility) among objectives, namely ‘equity’ and ‘full employment’, or ‘equity and ‘productive efficiency’, or ‘full employment’ and ‘productive efficiency’ (a challenge for the issue of automation), brings to the forefront all transversality and interdisciplinarity required of a “business economics approach”, which Industrial (Economy) Organization had included in its dynamic of theoretical and empirical developments in view of the concern with actual market performance.

The motivation for business economics would appear to end here, but there is a key area in which the Industrial (Economy) Organization has not been given the right amount of weight, either in “Basic Conditions” or concerning its influence in “Public Policy”, or even in relation to behavior – Finance.

And the issue is seminal and trivial! What business can be conducted without funds?

Industrial economists have not been oblivious to this issue and its relevance; yet we must acknowledge that this key area has been rather ignored, as made evident in the continuous development of Scherer’s paradigm (unlike that by J. Tirole (2015), who also contributed to this field). This alienation is, after all, the result of the separation between research in economics and finance, probably at the root of some of the most serious crises we have endured.

A comprehensive and coherent approach to Business Economics can only be conducted if this merger takes place in an attempt to better understand how the markets function and how their agents behave.

We should refer to J. Tirole’s position (2015), namely in chapters 11 – “À quoi sert la finance?” (p. 329-426) and 12 – “La crise financière de 2008” (p. 429-464), which starts with a famous and very blunt question regarding the crisis: “It’s awful. Why did nobody see it coming?” (Elizabeth II, Reine d’Angleterre).

From chapter 11, I take two sentences that reinforce the need for finance to be at the core of business economics, both on page 389:

- “Commençons par une évidence: la finance est indispensable à l'économie”
- “Le rôle de l'économiste est d'aider à pallier les défaillances du marché”

At the core is the market (and this core places the role of the economist in a somewhat restricted scope), the real object of industrial (economic) organization. We cannot admit to financial markets being separate from actual markets, because finance is crucial to economics. Evidence of that mutual influence is provided at the beginning of chapter 12 (p. 425) when the author refers that “la crise financière de 2008 a eu un impact majeur sur les populations. La croissance a chuté et le chômage a augmenté”.

Surprisingly, or maybe not, he mentions (p. 482) that we must acknowledge that economists had little influence in the time preceding the crisis and that, among the factors contributing to that was that university researchers were isolated, “car ils préfèrent souvent se consacrer à la création plutôt qu'à la diffusion des connaissances, sans compter que leur renommée académique se construit au niveau de leurs pairs et non au niveau des décideurs”. He concluded that (p. 463): “In fine l'éthique du chercheur est indispensable”

This is an ethical challenge also mentioned by Akerlof and Schiller. They state that (p. *xiii, xiv*) “Phishing for phools in financial markets is the leading cause of the financial crises that lead to the deepest recessions”.

In this context, the first issue of this journal represents a relevant step towards the construction of “Business Economics”, in which finance is given evidence, together with topics on economic regulation, industrial economics and financial intermediation, and discussed in different papers in this first issue. This is a good starting point for a journal that aims to integrate different areas included in “Business Economics”, both scientific and geographical. In terms of methodological approaches, this journal is also open to more theoretical and more empirical perspectives, to global models and case studies, since they may all be relevant for the “European Review of Business Economics” to be able to become a distinctive reference in scientific production leading to a more desirable social performance.

REFERENCES

- Abend, G. 2013. The Origin of Business Ethics in American Universities, 1902-1936. *Business Quarterly* April: 171-205.
- Akerlof, G. & R. Schiller. 2015. *Phishing for Phools – The Economics of Manipulation and Deception*, N. J.: Princeton U. Press.
- Amado da Silva, J. 1991. *Economia Industrial e Excesso de Capacidade*. Lisboa: Instituto de Novas Profissões, Coleção Estudos Gerais
- Clark, J. M. 1918. Economics and Modern Psychology, I and II. *Journal of Political Economy* 26(1-2): 1346-66.
- Clark, J. M. 1916. The Changing Basis of Economic Responsibility. *Journal of Political Economy*, 25(3): 209-229.
- Hasse, M. 2017. John Maurice Clark's Approach to Economic Responsibility: A Reconstruction Based on the Classical Model of Responsibility. *Management Revue* 28 (4): 461-486.

- Mason, E. 1939. Price and Production Policies of Large-Scale Enterprises. *American Economic Review Suppl.*, March: 61-74
- Porter, M. 1980. *Competitive Strategy: Techniques for Analysing Industries and Competitors*, New York: Free Press.
- Santos, A. 1987. A Introdução do Conceito de contestabilidade e Mercados Financeiros no Estudo do Paradigma de Bain-Mason. Prova Complementar do Doutoramento em Economia, Universidade Católica Portuguesa.
- Santos, A. 1989. Comentário ao livro "The Theory of Industrial Organization", by J. Tirole, *Economia*, Out, 455-458.
- Scherer, F. 1996. *Industry, Structure, Strategy and Public Policy*, New York: Harper Collins College Pub.
- Scherer, F. 1980. *Industrial Market Structure and Economic Performance*, Chicago: Rand McNally.
- Scherer, F. & D. Ross 1990. *Industrial Market Structure and Economic Performance*, Boston: Ed. Houghton Mifflin.
- Spence, M. 1981. Competition, Entry and Anti-Trust Policy, in Steven Salop ed. *Strategy, Predation and Anti-Trust Analysis: Federal Trade Commission*.
- Tirole, J. 2015. *Économie du Bien Commun*, Paris: Presses Universitaires de France.
- Tirole, J. 1988. *The Theory of Industrial Organization*, Cambridge, Mass., The MIT Press.
- Von Neumann, J. & O. Morgenstern. 1944. *Theory of Games and Economic Behavior*, Princeton: Princeton U. Press.