
**THE DICHOTOMOUS NATURE OF CAPITALISM:
CAN THE PROFIT MOTIVE BE RECONCILED TO ETHICAL BUSINESS PRACTICE?**

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Abstract

This paper presents the thesis that, in certain circumstances and despite the dichotomous nature of capitalism, economic self-interest, or profit, may be reconciled to ethical business practice. These circumstances require that: i) a business enterprise be conducted outside of a traditional business model, in what will be referred to as a stakeholder model of business; ii) this stakeholder model must be grounded in a Rawlsian conception of contractualism, where all players are 'free, equal, rational and reasonable', with the emphasis on reasonableness; and where, iii) matters of Aristotelean character are the currency for determining reasonableness and the degree to which players are able to agree, or at least not reject, a particular course of action.

Keywords:

Business ethics, profit maximisation, stakeholder theory, contractualist paradigm, virtue theory, virtue ethics

Declaration

I declare that this thesis is my own unaided work. It is submitted for the degree of Master of Arts (by coursework and research report), University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination in any other University.

Graham J. Willcock
1 September 2010

Success for the student is never exclusively their own – for success only finds meaning as it is shared with those who, like the student, had a vision that made the sacrifice worthwhile. My thanks to my wife Sharon, and to Alexandra Grace and Hannah Rose for their love and encouragement, and without whom I would not be the person I am today.

Preface

‘What becomes of the social morality of the corporation – the everyday rules-in-use that people play by – when there is thought to be no fixed or, one might say, objective standard of excellence to explain how and why winners are separated from also-rans, how and why some people succeed and others fail? What rules do people fashion to interact with one another when they feel that, instead of ability, talent, and dedicated service to an organization, politics, adroit talk, luck, connections, and self-promotion are the real sorters of people into sheep and goats.’

**Robert Jackall
Moral Mazes, 20th Anniversary Edition, 2010**

Business practitioners are familiar with the myriad ethical dilemmas that confront their profession. They bear witness to the conflict that emanates from the divergent nature of self-interest and ‘doing the right thing’; and the confusion over the ‘dual-citizenship’ business professionals hold as socially responsible corporate citizens across the triple bottom line (3BL) of People, Planet and Profit. Business however resides within the realm of humanity and is therefore, like the community in which it resides, no less afflicted by the moral viruses of our time be they racism, sexism, homophobia, ageism or, yes, greed. In this research report I have articulated the circumstances I believe are necessary if one is to reconcile profit with ethical business practice. As with all self-development enterprise however the student is reliant on the generosity of others in their willingness to share their knowledge, to encourage and to criticize the student’s endeavours. The support of my supervisor Robert Kowalenko has been invaluable as were the teachings of Brian Penrose and Dylan Futter. I would also like to acknowledge the invaluable research assistance provided by Sharon Willcock. I share with each of these individuals my success but reserve exclusively any deficiencies on my part. These must remain my own.

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I. Introduction

This paper explores the notion that, in certain circumstances and despite the dichotomous nature of capitalism, economic self-interest, or profit, may be reconciled to ethical business practice. These circumstances require that: i) a business enterprise be conducted outside of a traditional business model¹, in what will be referred to as a stakeholder model of business; ii) this stakeholder model is grounded in a Rawlsian conception of contractualism, where all players are ‘free, equal, rational and reasonable’, with the emphasis on reasonableness; and where, iii) matters of Aristotelean character are the currency for determining reasonableness and the degree to which players are able to agree, or at least not reject, a particular course of action. It will be assumed for purposes of argument that the maximization of economic profit is a morally legitimate business goal² (Kulshreshtha, 2005)³; and that the modern-day corporation⁴ is capable of moral agency and is therefore a member of the moral community (French, 1979). Importantly, in the interests of the complex requirements of an applied business ethic, this paper argues against the mutually exclusive demands of philosophical theorists and places its emphasis on pragmatic relevance to business practitioners today.

II. What is the dichotomous nature of capitalism?

‘Society has been concerned with the ethics of business since a market economy began in the west over 750 years⁵ ago’ (Vogel, p.49). Capitalism⁶ however, as an economic system, only made its debut in the early part of the 19th Century and was accompanied by a philosophical controversy that

¹ A traditional business model is a model that requires a supremacy of obligations to shareholders by management and where profit, or ‘the bottom-line’, is viewed as an end in itself.

² The argument here could look like this: Economic efficiency leads to improved productivity; productivity is a source of increased profit; profit allows for investment in a firm; investment is a good for all stakeholders; therefore, profit, as an economic incentive, is a good. Whether materialism can be viewed as a human good is a moot point.

³ Kulshreshtha seems to balk at the idea of conferring legitimacy on maximization of economic profit without a conditional rubric ‘provided that it results from greater economic efficiencies or productivity of the firm’ (Kulshreshtha, p.396). For the purposes of argument however it is not necessary to subdivide the sources of economic profit that require qualification.

⁴ The term ‘corporation’ refers to a business enterprise for profit and is meant to be synonymous in this paper with ‘business’, ‘business enterprise’, ‘firm’ and ‘company’.

⁵ A. Marcoux (2008) writing in The Stanford Encyclopedia of Philosophy states that ‘Construed broadly as a moral reflection on commerce, business ethics is probably as old as trade itself’ (p.2/16). Adam Smith (1779), in his book the *Wealth of Nations*, ‘canonised’ what Robert Solomon refers to as the ‘new faith’, founded upon the virtues of ‘thrift and enterprise’. This ‘new faith’ focussed society’s attention for the first time on the role of the corporation in terms that were almost exclusively framed as condemnation in the conception of the Aristotelean chrematisike (trade for profit) (Solomon, 1993a, p.355). Business ethics, as a discipline, is roughly four decades old.

⁶ Although the terms ‘capitalism’ and a ‘free market economy’ are used interchangeably throughout this paper, and are intended to be synonymous with one another, ‘capitalism’, whatever the definition used, usually includes private ownership of means of production, whereas the idea of a market economy does not.

continues to this day. This controversy stems from the dichotomous nature of capitalism: a market economy that acts out of morally dubious intentions along a continuum of selfishness, self-interest and 'enlightened' self-interest⁷; and yet seems to be concurrently capable of contributing to the greater common good by increasing overall productivity i.e. Gross Domestic Product (GDP). This increase in productivity is as a consequence of a more rational approach to production and the rational distribution of available resources. Some in the literature, like Kulshreshtha (2005), Solomon (1992), and Vogel (1991) also view the morally beneficial results of capitalism in terms of liberty, democracy, and corporate philanthropy. In the past decade however this link has proved more tenuous as a liberalisation of markets has failed to bring about the sort of democratic reform envisaged. Certainly the attitude of the Chinese and Iranians to human rights, as well as the despotic nature of a number of African regimes e.g. Zimbabwe and the DRC, make this link at best questionable. Thus, it would seem that there are two elements to the dichotomous nature of capitalism: i) moral motivation, in the form of selfishness; and ii) positive outcomes, in the form of social goods, howsoever they may be perceived.

But is this description accurate? Adam Smith, in his seminal work *Wealth of Nations* (1779), argues that the morality of the market is independent of the intentions of the players, selfish or otherwise, and that it is only through the free pursuit of self-interest that society is best served. Even where there is no intention to benefit society this is so and will occur 'as if directed by an invisible hand'. This is more preferable to Smith than if 'visible hands', in the form of government interference, attempt to bring about just results:

'and by directing that industry in such a manner as its produce may be the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for society that it was no part of it. By

⁷ The differences between 'selfishness', 'self-interest', and 'enlightened self-interest' become apparent as this paper proceeds.

pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it' (Smith, p.364).

While this 'invisible hand' argument remains influential, and is a significant contributor to the argument against government intervention in market economies, the above also suggests that the antagonistic relationship between moral motivation and favourable outcomes is perhaps not as obvious as most business executives intuitively feel and experience within the modern-day corporation.⁸ Duvvuri Subbarao (2009) believes that Adam Smith is better understood as first and foremost a moral philosopher rather than as an economist, with a profound understanding of the ethical foundations of the market.' Smith was also 'deeply suspicious of the 'merchant class' and their tendency to arrange affairs to suit their private interests at public expense' (Subbarao, p.7). It is within this context that Smith cautions 'the free pursuit of self-interest must be limited by considerations of justice and fairness' and importantly 'a concern or sympathy for others'. Presumably this principle was intended to place a limitation on unrestrained self-interest (Duska, 2000, p.116). This is not dissimilar to Milton Friedman's (1970) position that 'The purpose of business is to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied by ethical custom' (Friedman, p.1). What happens however when the law and ethical custom are wrong or ambiguous on an issue; or where there is conflict over what constitutes justice or fairness? How are we to respond when the 'concern or sympathy for others', required by Smith, is not apparent to those most in need of such consideration? The 'near-collapse' of the world-economy in the crash of 2009 is due, according to some views, to profit-seeking behaviour that was aligned with Friedman's conditionals – both 'the law and ethical custom' (Weitzner and Darroch, p.6). And yet this behaviour catalysed the near-bankruptcy of nation-economies like the USA, UK, Germany and France, etc. like Iceland; the world-economy went into recession; and first world governments were called on to nationalise the banking

⁸ A number of authors e.g. Duska (2000), Hosmer (1994), and Solomon (1992), reflect on the pressure placed on business executives to act in a manner that advances the business and/or individual (self) interests but conflicts with their own personal sense of fairness and justice. Solomon terms this conflict 'role morality' (Solomon, p.327).

sector to prevent the collapse of the world's financial sector. Unemployment across the world increased hardship, iconic brands in the form of Lehman Brothers and Bear Stearns & Co Inc. disappeared, and General Motors was forced into a public humiliation that continues to reverberate around the USA, and world, economy. Where, one must wonder, was the 'concern or sympathy for others' envisaged by Smith? Why was the law and ethical custom demanded by Friedman silent?

Is this however an unreasonable expectation in itself? Can one expect anything other than selfishness in a situation in which a corporation's survival is juxtaposed to its demise? Do his or her fiduciary responsibilities not demand of a business executive such self-centeredness? 'Do what you must to survive' is something not unfamiliar to business executives. 'The end justifies the means' takes on a courageous mantle where that 'commission' or 'consideration' paid to an influential 'facilitator' secures the jobs of hundreds, perhaps even thousands, of workers. The same may be said of the individual business practitioner however. 'Do what you must to make the next target' makes perfect sense when there is no other way to put food on the table, pay the fees required to educate a child, or to prevent repossession of a home or car. Each of these instances however is too obvious, too easy, too extreme. The majority of ethical decisions in business relate to the conflict that exists in the mundane nature of everyday activities that influence self-interest in the form of profit, the chasing of targets and corporate incentives, not survival. Toenjes (2002), Duska (2000), Solomon (1993 and 1992), and others, like Koehn (1995), believe this is where business ethics plays its role: By mitigating self-interest and selfishness in the day-to-day tasks that face a business professional, self-interest may be restrained and social goods are possible.⁹

⁹ The questions of 'When does self-interest become selfishness?' and 'Is this impermissible in a business setting?' are addressed within the context of a traditional business model in Section IV of this paper.

III. What normative theoretical accounts of business ethics are available to address this dichotomy?

Profit is profit regardless of how it is earned. Or is it? There are many who believe that not all profit is equal; that the motivation behind the profit incentive is the Achilles' heel of a market economy. The world financial crisis has damaged consumer and business confidence on a scale not seen since the Great Depression. The response of regulatory authorities has been to make more prominent the presence of 'visible hands' by way of increasing the scale and scope of regulation, and punitive sanction for non-compliance, in order to control and direct moral motivation in the form of economic self-interest: profit. The result is reduced competitiveness. Paradoxically, however, there has never been such emphasis placed on corporate vision and value systems, mission statements and codes of conduct (Lencioni, p.117). According to David Weitzner and James Darroch (2009):

'What is stunning about the current financial crisis is that it is the result of governance failures of both the boards of financial institutions and markets despite significant regulatory reforms in the banking world – Basel II – and corporate governance in the USA – Sarbanes-Oxley (SOX). The lesson to be learned is that regulatory reform without ethical reform will never be enough' (p.6).

Thus, one may conclude that, *prima facie*, available theories of business ethics have not led to the sort of ethical behaviour required to avoid increased 'visible hand' regulation by government.

Considering the myriad choices along utilitarian, deontic, libertarian or virtue ethic conceptions of ethical business practice, the question must be: Why not?

The utilitarian approach presents an aggregation of advantage for the greatest number of people as the ultimate good. Such a theory would include a differentiation between rule and act utilitarianism; the difference between preference and pleasure based utilitarianism; and a discussion as to what constitutes the 'ultimate good' (Solomon, 1992, p.317-318). Ronald Duska (2000), and others like Solomon (1992) and Vogel (1991), in the conception of Aristotle, dismiss the utilitarian viewpoint on

the basis that it fails on two counts: 'the problem of identifying appropriate ends as well as the problem of fair distribution' (Duska, 2000, p.118). What then is to constitute an appropriate end? Customer satisfaction? Market share? Customer loyalty? Return on Net Assets (RONA)? Personal earnings? For Duska this is a materialistic and altogether non helpful answer. Materialism is not the sort of 'appropriate end' he has in mind seeking rather a eudaimonic state i.e. human flourishing. A utilitarian approach to business ethics also fails to cognitively embrace the notion that as the corporation resides within the realm of humanity it cannot view employees, clients, and shareholders in a dispassionate and distant manner where the collective interest trumps all other 'humanistic' considerations.

Deontic theory places its focus on Kantian terms of rights and justice. The deontologist seeks to construct the principles of ethical business practice in a manner that would allow a business executive to understand 'what ought they do' in a given set of circumstances. These principles, in the form of 'the categorical imperative' would be demand-formulated, narrowly framed and bounded, and narrowly directed (Davis, p.208), such that any notion of the end justifying the means would be proscribed to all but the most reckless of business professionals. The categorical imperative has three formulations: 'Act only on that maxim by which you can at the same time will that it should become universal law'; 'Always treat the humanity in a person as an end and never as a means merely'; and in the third formulation 'view oneself as if you are part of an ideal kingdom in which you were both subject and sovereign at the same time' (Bowie, pp.4-10). Bowie however, recognising that a deontic appeal is likely to be perceived by a business practitioner as 'merely' a way to make commercial success more difficult argues that 'Kant's moral philosophy is more than a series of negative constraints' (Bowie, p.16). Framed suspiciously in utilitarian terms Bowie argues that a Kantian approach to business would be expected to encourage the democratisation of the workplace, to his mind an appropriate end and one that is popular in South Africa. Richard Toenjes (2002) is critical of a deontic approach to business ethics because: 'concerns with rights or justice,

when these do not reduce to the utilitarian concern with the good of all cannot explain why a person who is moved by business interests would also be moved by such deontic concerns' (Toenjes, p.58). While professional deontology has remained influential in professions such as Medicine, the Law, and Accounting & Finance, less so is its role in business where it is considered too abstract and therefore lacking in relevance. Like utilitarianism, a deontic account of business ethics finds it difficult to align the purpose, motivation and the role of an individual – in and out of business – with ethical business practice.

Libertarianism, as a third contender, would offer an alternative to the utilitarian vs. deontic polemic in the form of i) a Hobbesian type of game-theoretic account of mutual advantage in business e.g. a winner takes all sort of logic; or ii) a contractualist paradigm favoured by Toenjes (2002) that sees players engage with one another as free, equal, rational and reasonable individuals who can either agree upon a course of action, or at least refrain from withholding such agreement unreasonably. Toenjes dismisses the argument from mutual advantage because it begs the question: 'Successful business is ethical business may appeal to communitarians but the logic is unsound' (Toenjes, p.59). Logically there is nothing here to explain why one should follow the other. Success and ethical behaviour are often negatively related, particularly when success is defined in terms of a commercially-myopic view of the bottom-line. It is even possible that business may be commercially successful *in spite of* its unethical business practices as in the case of the Union Carbide gas spill in Bhopal, India which remains the worst industrial disaster in history (Kramer, p.74).

A libertarian approach, in a contractualist paradigm, while exhibiting greater potential than either a utilitarian or deontic theory, is also problematic for two reasons: i) As a foundational philosophical theory, it suffers from a lack of practical application; and ii) there is confusion over its scope and nature. Business may be fundamentally cooperative and based on shared interest (Solomon, 1993a, p.358), and stakeholders may indeed be free, equal, rational and reasonable, but there may still be

difficulty in determining the appropriateness of a course of action and what is in the interest of a corporation and its constituents. Also, it is unclear why responsibility for value creation should reside with the Executive. Consider the dilemma of trying to decide if one should reinvest company profits or pay out shareholders in the form of a dividend? Both formulations create value for the business. The former allows the development of superior skills and resources, and thereby increases sustainable competitive advantage; and the latter will appeal to potential investors such that the share price is increased and it becomes easier to attract capital for use in the expansion of the business, it too increasing sustainable competitive advantage. Both strategic intents are reasonable and rational conceptions of how to move the business forward and yet would attract controversy as to which is more acceptable or, for that matter, less rejectable.

A utilitarian, deontic or libertarian normative account of business ethics then all demand mutual exclusivity and yet suffer from one significant and consistent deficiency: None seeks to align the purpose, motivation and the role of an individual who intends business to be conducted in an ethical manner. Robert Solomon (1992) thinks this is problematic. For him there is too great an emphasis on questions of policy and disputes over entitlements and the distribution thereof as is evidenced by the myriad codes of conduct that seek to regulate ethical business practice. To his mind, and as a justification for a virtue ethic account of business ethics, 'What is missing from both policy debates and theoretical accounts of business ethics is an adequate account of the personal dimension in business ethics' (Solomon, 1992, p.319). This personal dimension is necessary if one is to accommodate the act, the actor and the outcome. Why so? According to Whetstone (2001), Solomon (1992), and others like Koehn (1995), the existential unit of responsibility and concern is, and remains, the individual but the individual in today's business world does not operate in a social vacuum. Therefore, 'the theory of business ethics is the theory about individuals in (and out) of business roles as well as the role of business and businesses in society' (Solomon, 1992, p.320). Daryl Koehn (1995) believes that as 'every action is performed by an agent and has an outcome,

every ethic in some fashion must treat of outcome, act and actor' (Koehn, p.533). A utilitarian, deontic or libertarian normative account of business ethics may address the outcome and the act and the implications of both for society but all three fail to consider the actor insofar as their purpose and motives speak to the permissibility or impermissibility of an act. Conversely, virtue theory places the emphasis on all three treatments: the outcome, the act, and the actor as applied to the individual's 'dual role' i.e. 'in (and out) of business', and speaks directly to their motive for determining the reasonableness or non rejectability of a behaviour-type.

A virtue ethic is not however without its detractors. Broadly speaking there are three main themes to this criticism: i) virtue ethics is compromised by the 'difficult and obscure concept of *eudaimonia*' (Whetstone, p.105); ii) cultural relativism (Hursthouse, p.222), the view that our conceptions of virtue are as provincial as they are ethnocentric (Solomon, 1992, p.324); and iii) the observation that virtues per se might be no more than 'particular instantiations of the abstract principles of morality' (Ibid.). These criticisms of a virtue ethic account of business ethics are addressed in Section IV. The conclusion here however is that a business practitioner who, notwithstanding the above, remains steadfast in their determination to align the profit motive with ethical business practice, would find minimal consensus as to what constitutes an adequate theoretical account of business ethics. This presumes of course there is comprehension of - and sympathy for - the language, the subtleties, the complexities, and abstract nature of applied ethical thinking. Thus, we are left with what Solomon (1992) believes is a 'crisis of theory and a pragmatic challenge' when it comes to business ethics (Solomon, p.317).

Kenneth Goodpaster (1991), and others like J.T. Whetstone (2001) and Robert B. Louden (1984) suggest that a business ethic cannot be addressed without the use of a combination of normative theories, something that does not rest comfortably in the realm of normative ethical theory. What is the objection to using a combination of theories in an attempt to show that it is possible to reconcile

the profit motive with ethical business practice? The problem is that combining mutually incompatible ethical principles carries the risk of inconsistency due to violating the principle of non-contradiction i.e. occasionally the theory will yield mutually incompatible answers to the same question, for example, whether or not the behaviour of Person A is ethically justified?¹⁰ This concern over inconsistency has resulted in what Robert B. Loudon (1984) refers to as a 'single-element mononomic tradition' (Louden, p.235) that requires a mutually exclusive theoretical account of business ethics where one may be either deontologically inclined, or utilitarian, but not both; where libertarians and communitarians agree over the importance of the community but disagree over the emphasis placed by communitarians on the Aristotelean need for practical wisdom and habit; and where one may adopt a virtue ethic but not combine it with a deontic or consequentialist account, much less with both. The result, depending on your persuasion, is that one theoretical account of business ethics is elevated above all others. Elevation occurs through a process of conceptual reductionism where 'both types of theory start with a primary irreducible element and then proceed to introduce secondary derivative concepts which are defined in terms of their relations to the beginning element' (Louden, p.227).

In the mononomic tradition, business ethics requires one 'irreducible element' e.g. a conception of the common good upon which we add secondary derivatives to explain the moral permissibility or impermissibility of action. This means, for the consequentialist, duty would be secondary to the common good as would a virtuous act. For Whetstone (2001) this has resulted in a 'mistaken scientific model' i.e. in our quest for a single-element mononomic theoretical account of business ethics we have placed the emphasis on finding a theory that *explains* rather than *justifies* our actions (Whetstone, p.102)(my emphasis). 'Explanation', to his mind, demands an irreducible mononomic element, whereas justification requires something more. Loudon suggests that 'something more' is an effort to 'co-ordinate irreducible or strong notions of virtue along with irreducible or strong

¹⁰ I am indebted to Robert Kowalenko who raised this potential criticism in the review process.

conceptions of the various act notions into our conceptual scheme of morality' (Louden, p.235). A hybrid business ethic then becomes possible such that a virtue ethic may be added to a deontic and consequentialist account of business ethics, where the former addresses a 'deontological focus on obligations to act' and the latter on a 'teleological focus on the consequences of the act' (Whetstone, p.111). Louden recognises that an 'appeal to coordination [between varieties of act-based theories] will not satisfy those theorists who continue to think in the single-element or mononomic tradition' (Louden, p.235), just as Whetstone acknowledges that it is unlikely such a 'tripartite' approach i.e. a deontic, consequentialist and virtue based hybrid would find favour 'according to formal philosophical argument' (Whetstone, p.111). Nevertheless, in the interests of the complex requirements of an applied business ethic, there is a body of literature that remonstrates against the mutually exclusive demands of philosophical theorists. If for no other reason, they would argue, a hybrid is necessary if business ethics is to have any pragmatic relevance in business today. This paper makes no such demands against the deontic vs. consequentialist divide. Rather it sets out those requirements regarded as necessary for the profit motive to be reconciled to ethical business practice with no pretensions as to establishing a hybrid account of business ethics.

IV. Why the profit motive is only reconcilable to ethical business practice outside of a traditional business model.

Theoretical accounts of what constitutes an adequate theory of business ethics have been shown to be limited in their ability to facilitate the sort of ethical behaviour necessary for the reconciliation of economic incentive, in the form of profit, with ethical business practice. The discussion thus far has shown a multitude of complex reasons but one which has not been addressed thus far is that they are overly reliant on a traditional model of business for their application and relevance. In a traditional business model 'shareholder capitalism'¹¹ rules and is considered by most to be the

¹¹ Jeffrey Pfeffer writing in the July/August 2009 edition of Harvard Business Review argues that 'CEO's are rediscovering 'stakeholder capitalism' – respecting the needs not just of investors but also of customers, employees and suppliers' (Pfeffer, p.91-92).

dominant business model of our time. This model requires a supremacy of obligations to shareholders and a bottom-line myopia by all employees, including the Executive and Management Group. LaRue Tone Hosmer (1994) however asks 'How are we to respond to a person ... who says: My responsibility is to create value for the shareholders, to optimise the earnings of the firm?' (Hosmer, p.191), the assumption here is that we have an obligation to respond as members of the business community and as fellow citizens. There is difficulty in formulating a response precisely because these individuals are remunerated in a manner that rewards performance against the bottom-line such that their own personal goals and aspirations, primarily materialistic in nature, are aligned to shareholder interests. If one incentivises a business practitioner according to the quantum of profit they generate, is it any wonder that they view their only responsibility as the creation of 'value for shareholders, [and] to optimise earnings of the firm'?

Criticism of a traditional business model is not however that, in this type of organization, there is an absence of values beyond the profit motive but that all values are subordinated to this motive. More often than not the corporate value system in a traditional business model recognises values such as fairness, integrity, trust and honesty, as well as an obligation to respect the ideals of the UN Global Compact and the triple bottom-line (3BL) of People, Planet and Profit.¹² The 3BL requires that because resources are not infinite, commerce must reconcile its own self-interests with a view to sustainability i.e. business must limit itself to providing for this generation only, so there are sufficient resources to meet the needs of future generations. This view is grounded in John Locke's 'enough and as good principle' in the 2nd Treatise on Government¹³; and John Stuart Mill's principle

¹² The UN Global Compact is both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. Sustainability is addressed via the much discussed triple bottom line (3BL) of people, planet and profit. In South Africa the King III report on sustainable business practice follows similar lines and is considered to be a world class manifestation of the UN Global Compact's philosophy. URL http://www.unglobalcompact.org/docs/news_events/8.1/GC_brochure_FINAL.pdf (24/01/2010)

¹³ See Tuckness, 2005. From the 2nd Treatise, Chapter 5 of Property: 'Nor was this appropriation of any parcel of land, by improving it, any prejudice to any other man, since there was still enough and as good left, and more than the yet unprovided could use. So that, in effect, there was never the less left for others because of his enclosure for himself. For he that leaves as much as another can make use of does as good as take nothing at all.'

that there is no crime where there is no harm done.¹⁴ Self-interest then, and with it profit, is constrained by a deference to the 3BL which in turn promotes ethical business practice.

How does this assist Hosmer and the need to respond to business executives who, while aligning themselves to a traditional model of business, are also conflicted in terms of the moral permissibility, or impermissibility, of their actions? The conflict primordially exists in trying to reconcile a supremacy of obligations to shareholders, and a bottom-line myopia i.e. a traditional business model, with the need to act in a manner that is sustainable as envisaged by the UN Global Compact. Certainly the 3BL is designed to restrain self-interest, and thereby consumption, to the point that self-interest is only morally acceptable where it provides for the needs of the current generation, without impacting the resource requirements of future generations. The UN Global Compact's view however, linked to consumption, is problematic within a traditional business model. Firstly, it assumes that future generations have such an entitlement.¹⁵ Secondly, utility companies and manufacturing industries may be comfortable with consumption as a benchmark but what about other sectors such as financial services, media and retail etc.? And thirdly, even where consumption is an appropriate benchmark, at what specific point does consumption, based on self-interest, become selfishness? The appropriateness of consumption levels may often only be determined retrospectively – unhelpful to a business executive required to make an ethical decision in the present. The normative principles espoused by the UN Global Compact are thus only a partial solution to the issue of sustainability. In South Africa, the King Code of Governance Principles (King III)¹⁶ seeks to address this by extending the concept of sustainability to include all commercial enterprise, thereby safeguarding the sustainability of the business *per se*, not just the resources available to that enterprise as Working Capital. According to King III then, a bank or insurance

¹⁴ See Brink, 2007, 'Mill's Moral & Political Philosophy.

¹⁵ The rights, or otherwise, of future generations are beyond the scope of this paper but present a fascinating point of discussion.

¹⁶ King III was commissioned by the Institute of Directors of South Africa (IoDSA) and came into force on 1 March 2010. King III is a voluntary set of principles that seeks to address business leadership, sustainability and corporate citizenship. It may be accessed via URL http://www.iodsa.co.za/downloads/documents/King_Code_2009.pdf

company would be required to consider sustainability across the 3BL in the same manner as say a paper, or synthetic fuels, manufacturer would.

Sustainability, without understanding the motivation for such behaviour, may result in behaviour that is driven out of consideration for compliant, rather than ethical, behaviour. King III addresses this deficiency by requiring of a corporation an 'apply or explain' commitment to the code rather than the 'comply or else'/'comply or explain' approach popular in other western free market economies. In the USA for example the 'comply' iteration finds favour. A demand for compliance however ignores the fundamental need for the voluntary application of a code if the behaviour is to be ethical. If the demand is only that an organisation 'comply' then the motivation may be regulatory rather than ethical. In the 'apply' condition, such as that espoused in King III, there can be no confusion as to the underlying motivation as it is voluntary. Interestingly, King III does intend for its provisions to become best practice at some future point such that they may find reference within case law. Should this occur the 'apply' vs. 'comply' differential becomes somewhat moot.

Having established that sustainability applies beyond consumption how is one to differentiate between self-interest and selfishness? Ronald Duska (2000) differentiates between self-interest and selfishness by viewing selfishness as the 'unconstrained pursuit of self-interest, an attitude consistent with egoism' (Duska, p.125) and where, in a subsequent footnote, 'I take egoism to be the ethical theory that maintains one ought *always* to pursue one's own self-interest.'; and the former where self-interest is viewed to be constrained by matters involving justice and fairness. But justice and fairness for whom? For the UN Global Compact, selfishness occurs when self-interest is at the **expense** of future generations. To this view the self-interest of a business practitioner chasing the next target, or bonus, ceases to be self-interest the moment it is at the **expense** of another. Duska however defines 'expense' in terms of an entitlement claim. 'Selfishness cannot [only] be understood as pursuit of one's interest when it hurts another. The hurt must occur over the

deprivation of a good to which the other is entitled' (Duska, p.122). Thus, while selfishness may not be admirable, neither is it impermissible for as long as it does not deprive another of a good to which they are entitled.

Praveen Kulshreshtha (2005) develops this discourse by introducing instrumental considerations, or 'enlightenment', such that enlightenment comes from both economic efficiency and social responsibility i.e. 'It is in the 'enlightened', or long term, self-interest of a firm to be ethical' (Kulshreshtha, p.397). Duska (2000) labels Kulshreshtha's 'enlightenment' as 'strategic reasoning' (Duska, p.119). This is because the notion that good-ethics-is-good-business is based on reasoning that asserts that a reputation for ethical behaviour is an important contributor to an employee having faith in their employer's integrity; a customer deciding to conduct business with a company; and an investor deciding to invest capital in that business enterprise. Therefore, a reputation for ethical business practice will result in more sales and greater investment and as long as the business is competently managed this will translate into greater profit. And therein rests the problem: 'All of the ethical goals are subordinated into instruments for the final goal, profit maximisation' (Duska, p.120). If in a traditional business model the pursuit of profit is the primary objective, it is conceivable that, when faced with a choice, the maximisation of profit will take precedence over all other considerations and may thus lead to 'the deprivation of a good to which someone else is entitled'. On this argument the reconciliation of the profit motive to ethical business practice in a traditional business model is difficult, if not impossible. 'Difficult' however is not synonymous with 'impossible'. A robust libertarian defence may be raised at the idea that business is a zero-sum game. In terms that Robert Nozick (1938-2002) would approve, it is possible for one economic actor to benefit disproportionately to another and concurrently for there to be *no offense* against an entitlement-claim; nor harm to be caused.¹⁷ In a traditional business model it is argued that because

¹⁷ See Feser, 2005. In Robert Nozick's now famous thought experiment involving basket-player Wilt Chamberlain, Nozick sought to show that in terms of distributive justice there is no injustice where there is no entitlement claim and thus no offense.

all ethical goals are subordinated to profit maximisation it is more likely for offense to be caused i.e. deprivation to occur. And where there is offense the libertarian defence would falter.

Why one may ask does a traditional business model remain so dominant? Certainly the teachings of Smith (1779), Carr (1968) and Friedman (1970) continue to be influential within business schools and corporate incentive schemes are designed to maintain bottom-line myopia. If these schools are tasked with responsibility for developing business leaders, and corporations place a premium on their graduates, is it any wonder that a traditional business model remains workable? Or does it? R. Edward Freeman (1984) disagrees: He believes that the traditional business model is 'resistant to change, not consistent with the law, and for the most part, simply ignores matters of ethics' (Freeman, p.58). Solomon (1992) would be a little more charitable as would Boatright (2006). After all, business cannot ignore ethics for as long as it requires that those participating in its practices act in a manner that is trustworthy (not deceitful) in order to avoid systemic failure. But Freeman does have a point in terms of the other two objections: Shareholder capitalism has long been subordinated to the legal demands of employee rights e.g. basic conditions of employment, occupational health and safety, skills development, etc. like labour relations and the right to belong to a trade union; and one only has to examine the financial crash of 2009 to get a sense of the conflict of interest between shareholders and their capital on the one hand, and the interest of the business and other stakeholders on the other. It is difficult to envisage how, in such circumstances as a traditional business model requires, the profit motive can be reconciled to ethical business practice. Thus, if reconciliation between the profit motive and ethical business practice is possible at all, then it will have to be outside of a traditional business model. How, if the excoriation of the traditional business model is complete, is this to be achieved?

V. How the contractualist nature of Freeman's stakeholder model facilitates the reconciliation of the profit motive to ethical business practice.

R. Edward Freeman (1984) was the first to codify, within a contractualist paradigm, an alternative model to a traditional business model – the stakeholder model. Freeman defines the model as 'Business can be understood as a set of relationships among groups which have a stake in the activities that make up a business' (Freeman, p.60). These groups, or stakeholders, are necessary for the existence of the business enterprise and consist of primary stakeholders such as employees, customers, shareholders, etc. like competitors; and secondary stakeholders like government, regulatory entities, the media, Special Interest Groups (SIGs) and Non-Governmental Organizations (NGOs). Participants are viewed as free and equal with no single stakeholder interest being elevated above another's. In a stakeholder model the firm is viewed as a nexus of contracts¹⁸ in which efficiency is the primary motivator (firm-as-contract-theory) and where agency theorists require of managers to act as 'agents' on behalf of all other stakeholders.¹⁹ The purpose of stakeholder theory is for stakeholders to be 'drawn into a relationship with the managers to accomplish organizational tasks as efficiently as possible' (Donaldson and Preston, p.79), where efficiency is viewed as being the source of value creation. Thus, the model's purpose is the maximisation of value creation by managers for the benefit of all stakeholders.

According to Pfeffer (2009), the stakeholder model was first popularised in the 1950s and 1960s but fell out of favour in the 1970s 'for many reasons [but] among them was a widespread belief in the efficiency and intelligence of markets' (Pfeffer, p.91). What an irony then the crash of 2009. The resurgence of the argument in favour of a stakeholder model is advanced on the basis of what Donaldson & Preston (1995) refer to as 'its descriptive accuracy, instrumental power; and normative validity' (Donaldson & Preston, p.65). The model is descriptively accurate because of its ability to

¹⁸ Williamson, O.E. & Winter, S.G. (eds.) 1991. *The Nature of the Firm: Origins, evolution and development*. New York: Oxford University Press, Inc. As quoted by Donaldson and Preston (1995, p.80).

¹⁹ Hill, C.W.L. & Jones, T.M. (1992). 'Stakeholder-Agency Theory', *Journal of Management Studies*, Vol.29, pp.131-154. As quoted by Donaldson and Preston (1995, p.78).

empirically describe how a business is managed. CEOs and employees make regular reference to stakeholders in their daily conversation with their commercial constituency, something that has pertinence within a South African context in which trade unionism continues to play an active role in politics, business and the greater community. Terms like 'consultation' and 'consultative processes' are common place in communicating with employees who are seen as an end in themselves; as are terms like 'strategic partners' when referring to service providers, SIGs and NGOs. The model's instrumental power may be understood as garnering the greatest level of commitment, by the greatest number of people, to a common vision and value system – the sum being greater than its individual components such that the relationship between stakeholder management and corporate performance is clear. Its normative validity refers to the model's ability to satisfy the moral rights of its employees and is utilitarian in orientation.

From this brief discussion of stakeholder theory it is clear that its appeal lies in the hybrid nature of its structure – whether one uses an empirical, instrumental or normative justification for stakeholder theory one would find much common ground with libertarian theorists, as well as those with a utilitarian or Kantian disposition. Stakeholder theory however is ostensibly communitarian in nature with a foundational contractualist philosophic intent. Central to Freeman's thesis is the notion that 'all parties have an *equal* right to bargain' that results in 'a *fair* contract' and where fairness requires 'a Rawlsian veil of ignorance on the part of those contracting in a multipartite collective' (Donaldson and Preston, p.79)(my italics). Are all parties however free and equal? Assuming that they are, what happens when there is conflict; differences of opinion; disagreement over the correct course of action? How would one go about mitigating the continuum of selfishness, self-interest and enlightened self-interest discussed previously such that it remains morally permissible?

Toenjes (2002) presents a Rawlsian conception of contractualism in business as a plausible basis for reconciliation between what he views as a dubious motive (profit) and morally beneficial outcomes.

He views it as 'a different and somewhat better way to answer *Why be moral?* in the form of a contractualist desire to cooperate with other persons according to principles that all can accept' (Toenjes, p.60). He defines this as a 'desire to justify' oneself. The desire to justify is the 'desire to give reasons that all can reasonably be expected to accept, or alternatively, the more limiting desire to give reasons than none can reasonably reject' (Ibid.). The unique characteristic of the contractualist desire is that it does not reduce to rational concerns with well-being but instead intends the reasonableness or fairness of an action or arrangement (Toenjes, p.65). According to Toenjes, while normative philosophy addresses the requirements of morality, and empirical science addresses the motivation to do what is moral, an understanding of what constitutes moral motivation must include both. It follows therefore that 'An adequate theory of business ethics, that seeks to address moral motivation, must address both empirical and philosophical concerns' (Toenjes, p.57).

Normative philosophy will explain how one ought to behave in business but there is nothing further to encourage compliance, hence the emphasis by regulatory authorities on control. At the risk of over simplification, normative philosophy could be viewed as the 'what' without the 'why' in economic morality i.e. *what* is the moral permissibility, or impermissibility, of action X within a business environment? Empirical science, such as psychology, on the other hand may well explain motivation and behaviour in terms of the attitudinal and value sets underpinning behaviour but it gives no indication of whether such action is morally permissible. Again, at the risk of being reductionist this could be interpreted as the 'why' without the 'what' in the same hypothetical i.e. *why* should Person A be expected to carry out, or refrain from X? If moral motivation, in the form of the profit motive, is to be reconciled to ethical business practice then one must provide both the 'what' **and** the 'why'. This for Toenjes is only achievable in a contractualist paradigm of business ethics where 'philosophic and motivational issues coalesce into one focal concern: The concern to

justify actions to others in terms that all can accept, or at least not reject' (Toenjes, p.57)(my emphasis).

Toenjes is confronted by two challenges: i) How is he to avoid the criticism that contractualism, as a foundational theory and Freeman's Stakeholder model as the practical manifestation thereof, encounters difficulty in accommodating reasonable disagreement between two equally rational individuals; and ii) Does his definition of justification not run the risk of confusing justificatory reasons (which speak to purpose) with a psychological account (which speaks to motive)? Problematic for as long as he believes an adequate theory of business ethics must address both the 'what' and the 'why' of moral motivation. In the first instance his thesis is grounded on the difference, to his mind, between 'reasonableness' and 'rationality'. In the second he does not appear to consider the possibility that ethical justification may be confused with a psychological explanation and thus there is the possibility of conflict, and therefore inconsistency, in his theory. What then is the difference in these conceptions such that his Rawlsian-styled contractualist desire will lead to the sort of ethical behaviour required if we are to reconcile the profit motive with ethical business practice?

Toenjes' argument in favour of a contractualist paradigm is centred on a 'focal concern' or 'justification'. He defines justification as 'the desire to give reasons that all can reasonably be expected to accept (acquiesce), or as the more limited desire to give reasons that none can reasonably reject (non-rejectability)' (Toenjes, p.61)(my parentheses). He sets out a number of instances designed to show that the idea is not foreign in a liberal democratic society asserting that 'The desire to justify is quite common and familiar' (Toenjes, p.60). 'The market demands it' would be one justification and the 'Golden Rule' is a way for us to justify our actions such that it is unlikely someone would reject our behaviour as being unreasonable. The process of 'justification' is intended to achieve acquiescence on the part of others, or at least to ensure their 'non rejectability' of our

actions, without resorting to manipulation; or an appeal to utilitarian concerns, mutual advantage or a communitarian viewpoint.

Toenjes places an emphasis on the difference between the 'reasonable' and the 'rational' – necessary because the demand for justification must be protected from the standard criticism of contractualism that, in placing too great an emphasis on 'free, equal and reasonable', the theory does not allow for disagreement between two equally 'free, equal and rational' people. It is possible, even common, for two 'free and equal' people to disagree over a particular business strategy, or justification, and for both to be rational in their argument. Toenjes believes that the phrase 'it is not reasonable to reject it' is manifestly different to 'that others have no reason to reject (it)' (Toenjes, p.62) but then has difficulty in explaining how so? Indeed, he appears to reconsider his position by asserting that '[The] difference need not detain us here because it will not substantially alter *most* conclusions we reach in applications to business ethics' (Toenjes, p.61)(my emphasis). But 'most' is not 'all' which means there are at least *some* situations where the difference is significant. One may, on this account, have several valid reasons why a particular stratagem for business is not a good idea but this misses the point. The appeal of Toenjes' contractualist approach is that where there is disagreement over what constitutes reasonableness in economic motivation there is the option of defaulting to the negative conception i.e. where it is not possible to agree, or acquiesce, to the argument under discussion can we agree to not unreasonably withhold our agreement?²⁰ Altruism, which Toenjes refers to, would be one such scenario for it is possible to imagine Person A not agreeing to something but accepting it because it is in the common good e.g. the need to rationalise an organization by shedding jobs and reducing overheads in order to safeguard the future of a company (Ibid.).

²⁰ I shall term disagreement between two equally rational individuals as 'rational disagreement'.

Is the 'accept-not reject' dichotomy as clear cut however? Is it not possible for there to be a middle ground where the one is not logically equivalent to the other? The negative and positive formulations are the key in that they significantly alter and affect purpose and motivation and the resulting behaviour. 'Accepting' X is therefore not the same as 'not rejecting' X, just as 'not rejecting' Y, is not equivalent to 'accepting' Y. For Toenjes, intent could be discerned through a process of what he terms 'ethical reasoning', or giving reasons for one's actions, and through this process it is possible to accommodate rational disagreement in a contractualist paradigm. James Rachels (2003), like Toenjes, believes 'the constitutive elements of morality are based on the reasonableness of an action and of the objective consideration of the implications for those people affected by a decision' (Rachels, p.14). For Toenjes 'The goal of agreement is linked not so much to the rational good but to the reasonableness of decisions' (Toenjes, p.67). Distrust and suspicion in disagreement often stem from the idea that the other party is ignorant or unqualified to be positional on a matter. Appealing to reasonableness, not rationality, alters this thereby facilitating greater respect and understanding that, while the other is entitled to their contrary position, it would not be reasonable for them to withhold their agreement or to reject a particular type of behaviour.

The emphasis on reasons and reasonableness avoids the possibility that certain conceptions of what constitutes the rational good prevent agreement or non rejectability. A notable point if one is to avoid what Toenjes terms the 'limits of justification ordinarily offered in defence of business decisions', usually across utilitarian vs. deontic fault lines (Toenjes, p.68). Solomon (1992) views this as nothing more than 'unabashed relativism' – 'if you are a utilitarian, you'll do this, if you're a Kantian, you'll do that' (Solomon, p.318). Toenjes runs the same risk for as long as it is not clear what constitutes reasonableness and for as long as it is possible to confuse ethical justification (purpose) with psychological reasons (motive).

And finally, Toenjes concludes his advocacy of contractualism with an appeal to its superior practical application and therefore relevance to the business executive in search of a plausible theoretical account of business ethics. This appeal is grounded in the way the theory 'forces decision makers to seek common ground on which to provide justifications' (Toenjes, p.69). Again, referring to the rational agent vs. reasonable person 'cooperative' Toenjes provides argument that it is not just the need for some rational good that is the motivation for ethical business practice but that there is similarly a reasonable expectation that others will abide by the terms of the contractual arrangement as well (Ibid.). But does this settle the matter? Having placed great emphasis on the need for reasonableness Toenjes fails to argue successfully just what it is and how it differs from rationality. It is all very well to expect stakeholders to be motivated beyond what constitutes a rational good, and that agreement towards some common good is in itself conducive to reasonableness, but for Toenjes' argument to be convincing he would, in my opinion, need to allow for a personal dimension to reasonableness i.e. what sort of person would agree to acquiesce, or not reject, a particular action? Once the contractualist desire allows for a personal dimension however it requires that we give serious consideration to the inclusion of a virtue based ethic within a contractualist paradigm like Freeman's Stakeholder model.

While Toenjes may argue that his 'differentiation' between reasonableness and rationality would successfully neutralise the criticism that contractualism does not allow for rational disagreement, he still has to deal with the challenge that his notion of justification potentially confuses ethical justification with a psychological explanation i.e. could justification in Toenjes' sense conflate a psychological explanation of action X with an ethical justification of X? For example, human beings in general are not good at determining their real motivation for an action. Consider charity. A plausible ethical justification for me giving money to a beggar is my belief that it will offer him relief from his suffering. The psychological reason however may be that it offers me relief from seeing him suffer. Now imagine in a business setting a company makes a sizeable donation to a 'green interest

group'. The ethical justification i.e. the purpose of the donation would be to publically evidence corporate citizenship and concern about green issues. The psychological explanation i.e. the motive however is that the donation helps neutralise criticism by shareholder activists of irresponsible production practices that cause unnecessary pollution. Toenjes makes no attempt to differentiate between the two opining that 'up to this point I have not stated specific criteria as an acceptable justification, beyond the general constraints imposed by the contractualist conception itself' (Toenjes, p.68). Even at 'this point' however he only offers a specific demand for inclusiveness. On this argument Toenjes, while offering a theoretical framework within which to make a stakeholder model of business work, is not able to neutralise the two criticisms he faces: That he fails to allow, in a clear and principled framework, for rational disagreement while ensuring that both the empirical and philosophical demands of an 'adequate business ethic' are provided for. But the contractualist desire does hold promise – the structures of the notion that stakeholders who are 'free, equal, rational and reasonable' is an appealing concept to business because it implies efficiency which in turn increases output. If contractualism leaves open the question as to what constitutes reasonableness, and we still have the matter of rational disagreement to answer, is it possible we need to supplement the theory from elsewhere? Understanding that reasonableness does not derive from that which is rational (as in the beggar example above), is it possible that reasonableness – and the ability to disagree (in the negative variant) – as well as differentiating between the ability to justify an action as well as explain it, may come down to one's understanding of the role and application of virtue ethics in business? Is it possible that the concept of reasonableness may speak to the individual, and matters of virtue theory, rather than an abstract theoretical account of business ethics like contractualism?

Certainly a contractualist paradigm in the conception of Toenjes – grounded in the desire to justify one's actions such that agreement is possible or, in the minimum conception agreement is not unreasonably withheld – is an attractive theory upon which to base a stakeholder model.

Justification plays an important role in limiting self-interest and selfishness, and with it unethical practices, within a community. Consider, for example, an independent and vigilant press and the role it plays in holding the political establishment accountable. Other than legal sanction there can be no greater limitation on self-interest and selfishness than the notion that one may be held accountable by being asked to justify one's behaviour. Ditto for business. A demand to justify one's actions is one way to restrain self-interest within a stakeholder model and thereby to achieve agreement (consensus) between different and diverse stakeholders; or at least to ensure that stakeholders do not unreasonably withhold agreement. In either formulation is it not a plausible way to prevent unethical business practice?

Perhaps not. Why the negative formulation of 'prevent unethical business practice' as opposed to the positive 'encourage ethical business practice'? Clearly a justificatory reason is not the same as providing insight as to the motive behind the action itself (Duska, 1997, p.1403). Doing, or not doing, something so as not to be caught is not the same as doing it, or otherwise, because it is the way one ought to behave. Stakeholder theory and its contractualist paradigm provide a framework within which to conduct business but both are insufficient to ensure that the motive for doing something is as it should be.

VI. Argument from the need to contextualise business in virtue ethics.

While stakeholder theory and its contractualist paradigm offer an 'adequate' theory of business ethics, and a framework within which to make it work, they risk generalisation to the point that they become unhelpful in the face of a real ethical dilemma. This is because justification only explains the acceptability or non-rejectability of something – not its reasonableness. For reasonableness you need to understand the purpose and the motive behind the justification. And when one speaks to motives one speaks to individuals and the roles they play in a given situation or circumstance. For a business ethic to be effective however it cannot be applicable to all situations and at all times

(Solomon, 1992, p.326). A role, and its progeny behaviour, must be contextualised, not to open the door on relativity, or a 'situational ethic', but in order to accommodate the role someone plays within a given commercial setting. This is important as role conflict and role confusion are often at the epicentre of unethical business practice. For instance what if a CEO is asked whether a programme of retrenchments is under consideration as part of a package designed to survive the current financial crisis? How is this CEO to respond?

By all extant theoretical accounts there is an expectation that the CEO will tell the truth but this oversimplifies a complicated and complex scenario that fails to consider the conflicts of interest at play or the conflict in the role she plays. If morality, in the conception of Rachels (2003) and Duska (2000 and 1997), is to guide us, it is through a process of ethical reasoning that the CEO would seek to justify her actions by using reason, and by the objective consideration of the interests of those people affected by her decision. The context here is critical – a question from a newspaper reporter must elicit, *ceteris paribus*, a different response and justification to that posed by say a shareholder, or employee, or the CEO's husband, or teenage daughter. Information and privacy issues may further contextualise the ethical dilemma facing the CEO but how is one to determine whether her decision is reasonable? What of the conflict between her role as a CEO (salaried employee) chasing a short term bonus that requires greater efficiencies and a reduction in overheads; and that of a shareholder (through the exercising of her share options) seeking a longer term profit:earnings (p:e) ratio? What about the conflict inherent within her position as a role-model in her community and profession; a mother and breadwinner who has sympathy for the hardship the retrenchment programme will have on those families affected by her decision? Self-interest, and even selfishness, in this situation may be morally permissible, and one may argue there is no argument from entitlement. The morality however of her motivation for deciding on the retrenchment package is an open question. Indeed the reason for her acting as she is may come down to matters involving her character and how it affects her role within the corporation, and the community in general. This

issue of personal character is something ignored by Toenjes (2002) in his support for a contractualist paradigm although somewhat paradoxically he frequently uses virtue-words and virtue-phraseology such as 'reciprocal cooperation' (Toenjes, p.62) and 'persons who in full rationality have a good that is not entirely consistent with our own or other rational conceptions of the good' (Toenjes, p.67). As discussed in Section III, Solomon is correct in his assertion that business ethics today is almost entirely focussed on questions of policy. The crash of 2009 has damaged consumer and governmental confidence in financial markets and business to such an extent that the formulation and implementation of regulation is now a primary focus of government and various NGOs with professional regulatory authority e.g. The South African Institute of Chartered Accountants. Regulation requires a policy framework within which an individual is expected to function. If self-interest and selfishness are both acceptable business practices that only become morally impermissible once an entitlement is identified, such that an individual or community is harmed by the denial of that entitlement, is it any wonder that business ethics focuses on disputes over entitlements? Disprove the existence of an entitlement and self-interest and selfishness become acceptable. Acknowledge that an entitlement exists, but challenge the distribution thereof, and again we are back in ethical territory. Without a 'personal dimension' any account of business ethics becomes sterile and academic. Clearly by this account stakeholder theory and its contractualist orientation do not provide for 'the personal dimension of business ethics' as they do not assume cognizance of the role of the *individual* in the stakeholder community.

When one claims that 'regulation requires a policy framework within which an individual is expected to function' what, one might ask, is meant by 'function'? To function is to play a role. A role is defined by R. S. Downie as 'a cluster of rights and duties with some sort of social function' (Solomon, 1993a, p.362). This social function is one of an 'interlocking set of mutual and reciprocal relationships including all stakeholders' (Ibid.). Why then is the role of the individual in business in need of resolution? If regulatory authorities operating under the authority of statute such as the

new Companies Act²¹ and the Competitions Act²² favour personal responsibility above the collective, as do professional bodies that require the acceptance of a Code of Conduct that favours personal accountability, why does business find it so difficult to follow suit? After all, while it is only through its interaction with the community that business finds its purpose, as do the individuals who are employed as its agents, this condition does not provide a facade behind which an individual may retreat in order to avoid personal culpability. The notion that 'The theory of business ethics is the theory about individuals in (and out) of business roles as well as the role of business and businesses in society' accurately reflects the 'dual citizenship' conferred on an individual by their role in – and out – of business. It is this dual role that will influence the reasonableness, or otherwise, of a business practitioner because it speaks to both the purpose and the motive behind the action – and this requires a contextualisation of business in virtue ethics.

How might we proceed with an appeal to virtue theory, within a stakeholder model, and a contractualist desire within that paradigm, such that reasonableness may be addressed? A stakeholder framework i.e. a contractualist paradigm, addresses the outcome and the act but it does not address the actor insofar as their purpose and motives are critical to determining the reasonableness of action. Conversely, virtue theory places the emphasis on: the outcome, the act, and the actor as applied to the individual's dual role and speaks directly to their motive for determining the reasonableness or non rejectability of a behaviour-type.

To Philippa Foot (1978) a 'virtue-word' must produce both good action and good desires (Foot, p.16) resulting in what she terms 'positive moral worth' (Foot, p.12). Positive moral worth speaks to both the action and the intention behind the action thereby enabling insight as to an individual's moral disposition. Reasonableness, within a contractualist paradigm, is intended to result in good action which would prove either acceptable, or in the negative formulation non rejectable, to other

²¹ The Companies Act No. 71 of 2008. Published in Government Gazette No.32121, 9 April 2009.

²² The Competitions Act No. 89 of 1998. Published in Government Gazette No.19412, 30 October 1998.

stakeholders. The CEO, in deciding to retrench workers (the act), believes that her decision will result in a 'good action' (the outcome) or else she would not be doing it. But the reasonableness, or otherwise, of her action will depend on her 'the actor' and her purpose and motivation for her action.

Whetstone (2001) defines a virtuous act as 'a rational act based on a wise, purposeful assessment of the factual situation, chosen for a pure motive and consistent with a steady disposition of the actor's character' (Whetstone, p.104). 'Reasonableness' by this definition could be determined by stakeholders in two ways. In the first instance, reasonableness may be viewed as a virtue reflecting wisdom, purposefulness, purity of thought, consistency, justice, openness, honesty, sincerity, sensitivity, decency. Here content as well as process is critical in discerning motive, with an emphasis on transparency and inclusiveness. By this definition our hypothetical CEO, compelled to be direct even were this to result in insensitivity, would be considered 'reasonable'. In the second instance, reasonableness could be defined in less flattering terms. Whetstone's definition would permit a lie for as long as there was a considered, purposeful assessment of the situation, a pure motive and consistency in the agent's character. Such dishonesty could be labelled within this definition as 'reasonable' i.e. the CEO would be considered reasonable were she to tell an untruth so as to preserve the feelings of her employees or were she to omit an important fact so as to protect hers.

A virtue ethic, such as that propounded by Solomon and Duska, would be unable to differentiate between the act and the outcome. By this argument an outcome cannot be viewed in isolation to past and future outcomes which are seen as a mechanism for the development of character through the corrective nature of the virtue itself. Thus we have the Aristotelean requirements for practical wisdom (*phronesis*) and habit that, over time and in practical terms, would correct deficiencies in the virtue of an individual such that all endeavour is the best of which the individual is capable (Moore,

p.250). There can however be no virtue unless there is 'some temptation or deficiency of motivation to be made good' (Foot, p.8). This seems counter intuitive particularly when one considers something like courage. By Foot's thinking, while courage in the boardroom may be a virtue it is not virtuous unless it is accompanied by some temptation e.g. a fear of losing one's job. It is this combination of both virtue and temptation that bestows upon an act 'positive moral worth' and it is to my mind positive moral worth that differentiates most clearly between ethical justification and a psychological explanation. Thus, in the examples above, the primary determinant of whether the truth or untruth told by the CEO is virtuous, or not, is whether such an act has positive moral worth. For there to be positive moral worth the CEO is only virtuous in being direct when her preference is for being sensitive or where she would prefer to delegate responsibility for the communication to a subordinate. From this discussion it would seem that if the contractualist emphasis on reasonableness is to be successful then reasonableness must itself possess positive moral value. Reasonableness with positive moral value would restrain self-interest, such that all stakeholder interests may be viewed in an egalitarian sense.

According to Foot however a virtue ethic requires more than a 'virtue word' that produces 'good action'. By her definition the virtues should also result in 'good desires'. Alasdair MacIntyre (1985) articulates the same sentiment this way: 'Virtues are dispositions not only to act in particular ways but also to feel in particular ways. To act virtuously ... is to act from inclination formed by the cultivation of virtues (MacIntyre, p.149). 'Cultivation' suggests that virtues need to be nurtured over time such that they become second nature i.e. result in an 'inclination' and thereby become part of the character of the individual. MacIntyre gives this process of cultivation a name i.e. practices. These practices result in internal goods which as they are exercised become self-fulfilling, resulting in excellence that benefits all those participating in the practice. For Geoff Moore (2005) this results in a quest for *telos* or 'good for man' (Moore, p.245). What is good for man is good for the community i.e. the stakeholders participating in the practice. If the practice is one of exercising reasonableness,

such that one may agree or at least not reject a particular course of action, one can see how a virtue ethic benefits the community and all its stakeholders.

What now of the criticisms of a virtue ethic i.e. i) the ambiguity of *eudaimonia* in business; ii) cultural relativism; and iii) that virtues *per se* are merely abstract principles of morality? The ambiguity surrounding *eudaimonia* is an obscure criticism. Whetstone believes that because of its obscurity it is not worthy of serious discussion (Whetstone, p.105) but this avoids an important outcome of a virtue ethic – the flourishing of a workforce and the community within which it resides. *Eudaimonia* may indeed be a broad concept but its meaning i.e. happiness as a result of prosperity and flourishing, is to be expected within a stakeholder model of business. In Aristotelean terms, flourishing in business would include a general sense of satisfaction, prosperity, and an intrinsic motivation because of a sense of having ‘a job worth doing’, in a company one is proud to be associated with. The community would similarly see the benefit of having the corporation within its midst and consider itself better off for it. Stakeholder theory then encourages precisely these *eudaimonic* outcomes as management is tasked with value creation across all stakeholder groups.

Cultural relativity and the risk of abstraction may be disputed in two ways: ‘that the language of rights and some general sense of utility’ may be used as a corrective (Solomon, 1992, p.324) and that cultural relativity is in itself a misnomer. For James Rachels (1999) cultural relativity is logically unsound, prone to unintended consequences, and encourages an emphasis on differences, which are minimal; and ignores commonalities between cultures, which are substantial (Rachels, p.36). It is also not clear why virtue theory attracts the sort of criticism that requires it be eliminated from consideration when other so called ‘act-theories’ suffer the same infliction. Different virtues may lead to conflict e.g. tactfulness vs. toughness vs. compassion but so too would rule deontology e.g. justifying abortion to save a mother’s life (Whetstone, p.105).

VII. Rebuttal

This research report has argued that a theoretical framework for ethical business practice is possible.

This assertion requires that business occurs outside of a traditional business model, in a contractualist paradigm, and is contextualised within virtue ethics. In the preceding sections, stakeholder, contractualist and virtue theory all attracted criticism in their own right, that: i) stakeholder theory is confused in its scope and nature; ii) the contractualist desire finds difficulty in accommodating rational disagreement; and iii) virtue theory is prone to cultural relativity and abstraction to the point of irrelevance. Business however is not perfect. Nor should it be. Equally so, neither should a theory of business ethics. The most significant criticism to the thesis presented in this paper is the risk of inconsistency due to the combination of normative theoretical accounts of business ethics. Would such a set of requirements result in inconsistency however? Consider a demand is placed on our CEO to make a budget while adhering to a corporate value system that promotes ethical business practice. Now consider that selling the product is not possible due to a lack of interest by customers at the current selling price and the CEO will forego a bonus she was to use to take her family on a long-promised vacation. Is it conceivable in such an example that in a stakeholder model of business, within a contractualist paradigm that is contextualised in virtue ethics, unethical business practice may still transpire?

In theoretical terms, and precluding criminal intent, it is difficult to imagine how this would be possible. To be sure the CEO may be tempted to a selfish act, for example by the interests of her family, such that another stakeholder's entitlement claim is harmed. Stakeholder theory however would restrain self-interest by ensuring that all interests are regarded in egalitarian terms and, where there is conflict, it is the role of management to frame the issue in a contractualist paradigm that ensures, through a process of justification, that acceptance, or at least non-rejectability, is possible. Virtue theory neutralises the deficiencies inherent within both stakeholder and contractualist theory ensuring the accommodation of the CEO, the act and the outcome. And the

outcome cannot be viewed in isolation to the outcomes in the past and in the future. It seems to me that despite the potential risk of inconsistency, any normative attempt to reconcile the profit motive with ethical business practice will require a set of requirements such as those presented in this paper. But the risk persists and it is not inconceivable that with a hybrid model inconsistency may result.

How might such inconsistency prevail? There is an assumption that stakeholder relationships are conducted in good faith and that there is a commonality of vision and values within the community itself. This may not however always be the case. For example, what if a process of economic recession-induced redundancies was politicised to the extent that the Executive could be threatened with dismissal by Shareholders; Labour could be marginalised by the Executive; and NGOs and Special Interest Groups could place demands on a company that would place the organisation's commercial viability in question? Stakeholder theory would require management to rephrase the issue such that agreement or non rejectability between stakeholders would result e.g. the redundancies are not intended to save money but to save jobs. The Aristotelean concept of practical wisdom (*phronesis*) would insist that the pros and cons of the proposed redundancies be weighed up according to previous experience such that ethically right action could be identified. It is possible to see in these circumstances how inconsistency might occur.

VIII. Other areas for discussion

In virtue terms selfishness, by most philosophical accounts, conflicts with our sense of what constitutes an adequate moral code. The idea that selfishness in business is morally permissible, unless it results in a dispute over an entitlement claim, such that a harm is caused, is an interesting notion that deserves further discussion. Similarly, is it possible to frame an entitlement claim outside of a language of rights and if so how might one go about achieving this? Other areas that have implications for stakeholder theory are the morally loaded questions 'Why should past labour

(capital) receive so much preference over current labour (employees)'; 'Are all stakeholders actually 'free and equal' or are some more 'free and equal' than others'; and 'Is it possible some societies/companies/functions/jobs do not allow virtues to prosper'?

IX. Conclusion

In this paper I have pragmatically explored the notion that, in certain circumstances and despite the dichotomous nature of capitalism, economic self-interest, or profit, may be reconcilable to ethical business practice. These circumstances require a combination of normative ethical theories where a business enterprise is conducted outside of a traditional business model, in what is referred to as a contractualist stakeholder model of business. Within this stakeholder model reasonableness on the part of stakeholders ensures that self-interest and selfishness are restrained from compromising an entitlement claim such that harm is inflicted upon another. And finally, within this stakeholder model matters of Aristotelean character are the currency for determining reasonableness and the degree to which players are able to agree, or at least not reject, a particular course of action.

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