

Chapter 15

The Social Role of the Firm: The Aristotelian Acting Person Approach

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Abstract In this paper, I am adopting the point of view of the first person as a generator of positive actions. It presents human's freedom in the search for excellence in action. Aristotelian ethics is structured in a system of goods, norms and virtues that is configured by means of individual action in the institutions of a particular culture. In this view, the firm's role as a social institution is presented, whereby its social responsibility is to encourage the ability of individuals to create new ends and means of action in the reality around them. Good entrepreneurial practice (*eupraxia*) occupies a central position, defining the paradigm that each society and culture sets as the model of economic life.

15.1 Introduction: The Problem

Our starting point is to recognize the fact that persons have needs to satisfy. That is to say, to speak of economic reality is to speak of needs. As Aristotle says: "the end aimed at is not knowledge but action" (*Nicomachean Ethics*, NE hereafter, I, 4,19095a6).¹ So, following Aristotle, I am adopting the point of view of the first person, the acting person instead of modern view of the third person, the judge, the legislator who is observing individuals. The point of difference is that Aristotle is almost entirely concerned with analysing the problems of the moral agent, while most contemporary moral philosophers seem to be primarily concerned with analysing the problems of the moral judge or critic. As Stuart Hampshire states: "Aristotle describes and analyses the processes of thought, or types of argument, which lead up to the choice of one course of action, or way of life, in preference to another, while most contemporary philosophers describe the arguments (or lack of

¹ I quote Aristotle in the classical style, *i.e.*, book, chapter, paragraph and lines of the text.

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arguments) which lead up to the acceptance of rejection of a moral judgment about actions” (Hampshire 1983, p. 52). In effect, every ethic of the third person is worried about giving principles and rules to determine the just action: if it is an utilitarian ethic, just action is when it produces the greater social welfare to the individuals involved; if it is an ethics of justice, the act is just when it does not harm the space of liberty of action which every individual deserves and within which she has her rights to fulfill her own desires. In this view the most important moral goal is to recognize the importance of individuals, their personal liberty of compulsion and their desires. This is a very important point because it refers to the conception of freedom as ‘freedom from’. In this view, the person is free from institutions to do what she likes. It represents the freedom of indifference. One may do this or that. In this view, a person who chooses to be a thief is as free as one who chooses to undertake a great enterprise. This first view presents the freedom of indifference.

But in such a situation the question arises, why a person ought to be moral? Why do I have to obey utilitarian or justice rules? Obviously, the first answer is straightforward: for disobeying you are going to be punished. Well, we can agree with such an argument, but it still remains a question, what I do with my life? What is the meaning I want to give to my life? To these questions the contemporary moralists are silent. To distinguish between such points of view we will introduce the concept of freedom as ‘freedom for’. This view presents the acting person, the point of view of the first person, the person as a generator of positive actions. It presents human’s freedom in the search for excellence in action.

Aristotelian ethics is structured in a system of goods, norms and virtues that is configured by means of individual action in the institutions of a particular culture. All individuals choose courses of action by deciding what type of life is worth living. In this view, virtue (*areté*) occupies a central position, defining the paradigm that each society and culture sets as the model of life to be lived (*eudaimonia*). But recovering the classical framework permits a new approach to social sciences not based in utilitarian ethics and the neoclassical mainstream economic model.² In my opinion the complexity of individual reality with all its social and cultural components cannot be reduced to mere quantitative maximization, as is often done in the usual mainstream economics. But there is a pertinent question: what is the result of applying the neoclassical model to resolving economic and social problems?

S. Ghoshal (2005) acknowledges and demonstrates the consequences of applying the neoclassical model to resolving real business problems. The article’s title could not be more telling: “Bad management theories are destroying good management practices.” Ghoshal says: “Combine agency theory with transactions costs economics, add in standard versions of game theory and negotiation analysis, and the picture of the manager that emerges is one that is now very familiar in practice: the ruthlessly hard-driving, strictly top-down, command-and-control focused,

²For a critique of mainstream *homo economicus* expanded to *all* human behavior and presenting an alternative approach based on a theory of human action see Aranzadi (2006).

shareholder-value-obsessed, win-at-any-cost business leaders of which Scout Paper's 'Chainsaw' Al Dunlap and Tyco's Dennis Kozlowski are only the most extreme examples. This is what Isaiah Berlin implied when he wrote about absurdities in theory leading to dehumanization of practice" (Ghoshal 2005, p. 85).

The current crisis, with its constant corporate and financial scandals, is having a very dangerous effect. It is calling into question the role of the market economy and the importance of the firm as a social institution. As Ghoshal says: "Of far greater concern is the general delegitimization of companies as institutions and of management as a profession" (Ghoshal 2005, p. 76). Is it not more important to resolve the current crisis than to spend our time resolving academically prestigious mathematical problems? As H. Simon points out and Ghoshal echoes: "Nothing is more fundamental in setting our research agenda and informing our research methods than our view of the nature of human beings whose behaviors we are studying. . . . It makes a difference to research, but it also makes a difference for the proper design of. . . institutions" (Ghoshal 2005, p. 292).

Our study of the firm as a social institution is circumscribed in a very particular sphere. We will limit ourselves strictly and methodologically to describing what things patently are, i.e., how they manifest themselves in the sphere of the primary radical reality that is our life. To speak of economic reality is to speak of needs. Humans need to procure food, shelter, a mate, etc. In our society we are accustomed to providing for our needs through market exchange. We are accustomed to providing for our needs through business relationships; we work for a wage that allows us to buy what we want. In this approach two issues arise:

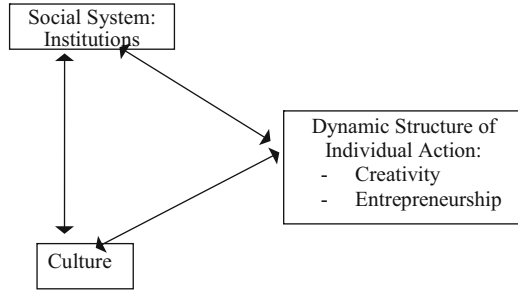
15.1.1 The Individual Does Not Act Alone

The individual is not a secluded nomad; human being, in Husserl's terms, is a *with-being* (Husserl 1954). With this expression we indicate the person's essential openness to her fellow men by means of society and culture. Thus every individual action is social and has a cultural significance. In Sect. 15.2 we will approach the firm as social institution.

15.1.2 Individual Reality Has Her Social and Cultural Components

This is a reality, whose objective is the full development of the real possibilities of people. Each individual adjusts her present reality to her future reality, an adjustment made through ideas, purposes and projects, always with a view to an end. So in Sect. 15.2.4 we will link together the concepts of creativity and entrepreneurship within individual action for in Sect. 15.3 set out the central idea of this paper that

Fig. 15.1 The socio-cultural framework of personal action



the social role of the firm is to foster the possibilities of her employees. Hence, in Sect. 15.4 we can launch the idea of the idea of a good entrepreneurial practice (*eupraxia*) in which the firm as an institution is the source of the creation of value. And we will close up in Sect. 15.5 with concluding remarks.

15.2 The Firm as Social Institution

In order to understand any human action we need a systemic view, and include it in the triad person-society-culture to understand its genesis.³ With this, I do not wish to place society or culture above the individual reality of the person, nor do I want to say that what is social or cultural is superior to the individual. This would lead us to an opposition between what is individual and what is social. The opposition between individualism and communitarianism represents a radically insufficient approach. My aim is to demonstrate that individual reality is only comprehensible in its totality, that is to say, a personal being, a social being and a cultural being. Figure 15.1 shows the development of this section.

15.2.1 Social Institutions

Our approach to institutions is made taking into account their diversity in the satisfaction of the fundamental needs of humans, such as food, reproduction, security, hygiene and growth. All these needs have a basic character since the person belongs to the human species. A person cannot stop providing for her needs if she wants to conserve her life. The success of these institutions will be measured against the degree of satisfaction of the needs. So, the institutions are coordinated for the satisfaction of more than one satisfaction at a time. Malinowski (1944) states that the formation and maintenance of auxiliary institutions which co-ordinate other institutions is the best means for the simultaneous satisfaction of a whole series of

³For a full developed version of what follows in sections (2) see Aranzadi (2011).

needs. However, since it is not possible to identify the satisfaction of a particular need with a certain institution, institutions cannot be correlated exclusively with singular necessities; instead, their existence also has to rely on other causes. Similarly, in economics there is no way to separate economic behavior from extra-economic behavior depending on the ends that are pursued (Becker 1976; Mises 1996). Therefore, for the comprehension of both market phenomena and the institutions it is necessary to take human action as a starting point.

Every action, whether it is social interaction, or a market exchange, is carried out within some social institutions. The institutions make it possible for the expectations of the persons to concur and that the mutual benefit of the relations is guaranteed. As D. North (1991) says: “Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct) and formal rules (constitutions, laws, property rights)” (North 1991, p. 97).

That is to say, the process of social institutionalization guarantees the coordinating tendency of the expectations. Following North I can define the institutions as the regular forms of life in common of individuals. So any institution realizes three functions: (1) satisfy needs, (2) coordinate the behavior of individuals, and (3) provide norms of conduct and values shared by individuals. These three functions fit well with the three levels D. Melé (2003) counts for the humanistic approach to management development: satisfaction of needs, focusing on organizational norms, and “centered on building up a community of persons embedded with an organizational culture which fosters character” (Melé 2003, p. 82).

In this approach, institutions constitute an integrated system where the expectations of the roles are rule-governed, and have a stabilization effect on conduct. One can thus explain the origin of the division of labor, which is the basis of economic progress, as it enables people to specialize in a task, and to expect the exchange of the goods produced by each person. This possibility of exchange is what the market economy is based on, and is due to the fact that the division of labor has become rule-governed, it has become institutionalized.⁴ In this view I can understand perfectly what Moran and Ghoshal say about firms: “Each firm creates a unique subsidiary context, consisting of its own unique mix of incentives that encourages the assimilation, sharing, and combination of resources” (Moran and Ghoshal 1999, p. 407). This rule-governed dimension of social institutions is of maximum importance.

Institutions are also dynamic, as an institution has not only made it possible to achieve the ends desired in the past, but it has to make it possible, in each present action, to achieve the ends that each person determines. As North points out: “They (institutions) evolve incrementally, connecting the past with the present and the future; history in consequence is largely a story of institutional evolution in which the historical performance of economics can only be understood as a part of a sequential story” (North 1991, p. 97).

⁴ As Solomon (1992, p. 163) says ‘buyer’ and ‘seller’ are established roles within an organized system.

15.2.2 *Culture*

Social institutions are fashioned into forms of life when they are stabilized and transcend the individual person who acts. The social institutions, in this case, firms, have their own dynamism, which depends on the opportunities that enable their members to exercise their creativity and capabilities. So following Moran and Ghoshal (1999) I define the economic process as a value-creating process based in the following concepts: (1) Universe of all possible resource combinations. (2) Perceived possibilities. (3) Productive possibilities. (4) Productive opportunities. And they affirm: “as many firms of different forms and sizes engage in this process, each broadens the scope of exchange in ways that allow it to focus on some fragmented bits of the knowledge that Hayek (1945) talked about” (Moran and Ghoshal 1999, p. 405). Michael Porter (1981) acknowledged the need of the concept of value creation for effective firm strategy. And now it is commonly recognized that to maintain the dynamism of an economic system both value creation and value realization are needed (Teece et al. 1997).

The world ‘culture’ in its general sense indicates everything whereby the person develops and perfects her many bodily and spiritual qualities. In this sense the existing tension between institutions is resolved positively. As J. Finnis points out: “the possibilities of activity, of shaping and maintaining one’s identity, and of knowing and communicating with reality and real persons – are more than bare ‘factual’ possibilities. We understand them instead as the sort of evaluated possibility that we call opportunities” (Finnis 1983, p. 41). The person strives by her knowledge and her labor, to bring the world itself under her control by *eupraxia*, goodness of action. The person renders social life more human both in the family and the civic community, through improvement of customs and institutions. Throughout the course of time she or he expresses, communicates and conserves in her or his works, great spiritual experiences and desires that they might be of advantage to the progress of many, even of the whole human life. The forms of life are objectivized as culture and thus, tradition is transmitted. But, tradition has to initiate an action: It has to have real, present meaning; in other words, the here and now of a project has to be an incentive. Tradition coming from *parádosis*, *tradition*, is not the uncritical acceptance of past usages. So, as the bequeathal of physical characteristics is transmitted genetically, the radically human element, the ways of being in the world are handed on by tradition.

15.2.3 *Individual Action*

The analysis of the original framework has brought us back to the individual and her possibilities of action. Aristotle’s method approaches the study of possibilities of action through the study of the corresponding acts or actions, which in turn, are understood on the basis of an understanding of their objects. Thus, our study set out

from the goods that are the objects of our acts through institutions. But this study of the constituent elements of institutions has led us into a study of culture as the social realization of a common framework that allows us to satisfy our needs. Finally, we now have the individual as the last step in our study, showing us the potentialities of individual action. The Aristotelian notion of happiness, *eudaimonia*, appears as the result of a process, of an activity, and not as a psychological state, as understood in modern times. The second aspect is that all individual action has a cultural and social dimension. Social institutions provide the individual with goods via social norms. This provision operates by means of culture. It is the common good that constitutes *eudaimonia* as personal activity.

Any goal is the perception of a lack, joined to the desire to act. Perceiving the goal anticipates the path to be followed to reach it. That is, an act is not initiated from a mere desire or need; an act is initiated once something wanted or desired is identified. The second prerequisite is knowledge of how to change the situation, while the third is that there must be a will to act. Thus, we encounter the material object of ethics: voluntary and free acts. As Aristotle says: “The agent must be in a certain condition when he does them; in the first place he must have knowledge, second he must choose the acts and choose them for their own sake, and third, his action must proceed from a firm and unchangeable character” (Aristotle NE, II, 1105a27-32). Voluntary action entails the knowledge of the intended goal and the necessary means; it is chosen as a result thereof, i.e., because they are good in themselves and pursuant to the decision to accomplish them. As to ethics that leave the choice of ends out of the analysis and focus on deliberations on means, we should be clear that the choice of ends is a key element of ethics (Richardson 1997; Sherman 1989). Any choice of ends involves deliberating on means. There is always an evaluation that we may define as subjective cost/benefit assessment, but it is reductive to regard that deliberation as a matter of maximizing utility. We should counter any tendency to moral fragmentation by asserting that the supreme form of ethics is the reference to the ultimate end of life which arranges means and ends in a project for life.

We now reach the realization of action which reverts to its originating socio-cultural framework. The execution of an action has fundamental consequences on the acting individual and on society and culture. These three dimensions can be separated only analytically. The observed reality is individual action. But action with other individuals is social action, and action with meaning is cultural action. As a consequence of this formal structure we can highlight the incorrectness of studies that seek to set the individual against society. As Solomon points out: “What is best in us – our virtues – are in turn defined by the larger community, and there is therefore no ultimate split or antagonism between individual self-interest and the greater public good” (Solomon 2004, p. 1023). An opposition between the isolated individual and society conceals the intrinsic relationship between the various dimensions of action. Such action is substantively individual but with inseparable social and cultural dimensions.

15.2.4 Creativity and Entrepreneurship as Dynamic Structure of Individual Action

Individual action is not, therefore, a mere whirlwind, but the transcending of a given and established framework. Any innovation needs the established market on which to draw attention to its individuality. That is, every change drives market relationships, making it impossible to attain the state of repose that characterizes economic stability in the neoclassical model. To understand creativity we must not confine ourselves to the product already produced, but rather investigate the creative process that gives rise to it. Schumpeter (1947), the celebrated Austrian economist, spoke of creative destruction, implying with this concept that every economic innovation was an abandonment of economic equilibrium. Each change impels relations in the market, making it impossible to reach the state of rest which characterizes economic stability. This expression has been much repeated, but it does not capture the essence of the problem. Rather than destruction, one should speak of the retention and expansion of possibilities. Destruction would occur when a previously satisfied need could not be met with a new product. Creative innovation is not a reduction but rather an enlargement of the satisfaction of needs and an enlargement of the possibilities of action (Kirzner 2000). So, new combinations create a new source of potential value. So, we can take an interactive view of creativity based on three elements: the person, culture and social institutions.⁵ In other words, entrepreneurial innovation has not only a personal dimension, i.e. the creator, but also a socio-cultural dimension.

Creativity may be explained and studied and, little by little, psychologists are supplying techniques for improving it. But at the moment, creativity is a faculty that is learned, and teaching it is quite difficult. We see that reality is modifiable, that there are real opportunities to modify our surroundings, and that our creative potential is not utilized. Due to faults in the institutional organization of firms and the rigidity of corporate culture, personal creativity is not easily fostered. All studies of creativity seek to enhance it in everyday life: in family and social relationships, at work and in education.

Following the theory of I. Kirzner we can define entrepreneurship as: “that element of alertness to possible newly worthwhile goals and to possible newly available resources” (Kirzner 1973, p. 35).⁶ This entrepreneurship means that action is something active, creative and human. Reality in the widest sense is liable to be turned into resources. Anything, tangible or intangible, may be turned into a resource as soon as someone sees in it an opportunity for profit. In this respect Kirzner speaks of the world as a reality around us full of opportunities for profit. The opportunities are out there. The following quote corroborates this second view of entrepreneurship: “Our world is a grossly inefficient world. What is inefficient

⁵This systemic theory of creativity has been developed by M. Csikszentmihalyi (1996), T. M. Amabile (1983, 1996) and R. J. Stenberg and T.I. Lubart (1995) among others.

⁶If we pause over this definition we see that the discovery of an entrepreneurial element within human action is excluded by definition in G. Becker’s (1976) neoclassical theory.

about the world is surely that, at each instant, enormous scope exists for improvements that are in one way or another ready to hand and yet are simply not noticed” (Kirzner 1979, p. 135).

If we bear in mind these two aspects – the creative capacity of the entrepreneurial function and the worldly sphere in which it is deployed – the definition of pure entrepreneurship as the deployment of the person’s creative capacity in the reality around her becomes clear. Any reality that makes sense to the actor is a field of action for entrepreneurship. Therefore the importance of social institutions and culture as constituent elements of personal action is not based on external considerations but on the fact that both elements, along with personal action, constitute ‘what is human’, where the actor develops the entrepreneurial function.

Entrepreneurship, therefore, is not objective and scientific knowledge that may be hired on the market (Hayek 1976/1945). Pure entrepreneurship is the ability to project oneself from the given and to imagine opportunities for profit. It is knowing what to do with information. It is defining economic behavior in a world without perfect knowledge. In the perception of a possibility when there is no comparison of known alternatives because these do not exist; they are in the future imagined by the entrepreneur. As Kirzner says, “the incentive is to try to get something for nothing, if only one can see what it is that can be done” (Kirzner 1979, p. 11). This is the defining characteristic that constitutes entrepreneurship. Action is the result of our ability to project ourselves and to envisage what may exist in the future. The background of action should not be sought in the past but in the attempt to get a more profitable present out of a future that does not exist.⁷

15.3 The Social Role of the Firm

We now have an interactive view of creativity linking the person, the firm as social institution, and the organization’s culture. In this view the social importance of the firm is huge: *the firm’s social responsibility is to enhance the possibilities of persons*. The assertion that any person has the ability to create to a greater or lesser extent highlights a current problem of great importance when firms need to innovate at high speed. It highlights the fact that in firms there is much wasted talent. Jack Welch, former president of *General Electric*, said: “The talents of our people are greatly underestimated and their skills underutilized. Our biggest task is to fundamentally redefine our relationship with our employees. The objective is to build a place where people have the freedom to be creative, where they feel a real sense of accomplishment - a place that brings out the best in everyone” (Ghoshal and Barlett 1997, p. 21).

⁷ The same idea was masterfully expressed by Professor Julián Marías in the following words: “My life is not a thing, but rather a doing, a reality projected into the future, that is argumentative and dramatic, and that is not exactly *being* but happening” (J. Marías 1996, p. 126). More bluntly, Peter Drucker says: “the best way to predict the future is to create it” (P. Drucker 1998, p. 197).

In this respect the economists S. Ghoshal and C.A. Bartlett, echoing J. Welch, define the new social dimension of the firm: “Rather than accept the assumption of economists who regard the firm as just an economic entity and believe that its goal is to appropriate all possible value from its constituent parts, we take a wider view. Our thinking is based on the conviction that the firm, as one of the most significant institutions in modern society, should serve as a driving force of progress by creating new value for all of its constituent parts” (Ghoshal and Barlett 1997, p. 27). As Ghoshal, Bartlett and Moran (1999) say what we need is: “a new corporate philosophy that explicitly sees companies as value-creating institutions of society” (Ghoshal et al. 1999, p. 19).

We may say that society is a process of creating possibilities for action that are realized in social institutions and transmitted culturally. In this dynamic view, society is based on the will of persons and is not the product of an arbitrary imposition by a centralizing and regulating body (Mises 1996; Hayek 1976/1945, 1989). It is a process of human relationships structured in social institutions such as the family, law, language, the market, etc. And it is a process that transmits forms of access to reality from generation to generation. We may reformulate this premise and postulate the following: the more individual possibilities for action it generates, the more efficient an institutional and cultural framework will be. That is, we may venture a criterion of social coordination allowing us to define entrepreneurial efficiency as a social institution according to the possibilities for action that the firms generate. I would like to suggest a criterion of qualitative efficiency based on the real possibilities of individuals. The Nobel Prize winner for Economics Amartya Sen (1999, 2002, 2009) spoke along the same lines:⁸ “Individual freedom is quintessentially a social product, and there is a two-way relation between (1) social arrangements to expand individual freedoms and (2) the use of individual freedoms not only to improve the respective lives but also to make the social arrangements more appropriate and effective” (Sen 1999, p. 49). Sen’s work is highly significant because it indicates the growing interest of orthodox academic economics in seeking theories to explain social reality without reducing it to a set of variables that may be manipulated mathematically as a matter of maximizing utility. In order to understand the generation of wealth we must focus on the motivations, wills, preferences and rules of individuals.

Let’s uphold the criterion of entrepreneurial efficiency and define economic efficiency as the enhancement of persons’ possibilities for action.⁹ The first aspect of this criterion is that it is dynamic. Its coordination lies in the process of social interaction that progressively eliminates inefficient situations. Thus an economic,

⁸ It is impossible here to deal with the capabilities approach developed by A. Sen and M. Nussbaum (Nussbaum and Sen 1993). The first point should make the differences –remarkably I would say– between Sen and Nussbaum approaches. For instance, Sen (2009) presents what he considers to be distinctive of his approach, and Nussbaum (2011) does the same. For a general and critical assessment of both approaches see H. Richardson (2000, 2007).

⁹ P. Koslowski (1996, p. 53) states emphatically that the market allow not only freedom of consumption but also of action and production.

social and cultural system will be more efficient if it increases personal possibilities for action. And conversely, a social and cultural situation will be more inefficient if the possibilities for action that it affords to persons are more limited. However, we should supplement this criterion. All individual action has a social dimension and, as a result, the institutional order is maintained by personal actions. Therefore it is necessary to supplement the criterion of coordination from the social perspective and assert that the more entrepreneurial and social coordination it generates, the more efficient personal action will be. Thus we can assert that all behaviors that we normally regard as antisocial or pernicious, such as theft, murder, fraud or drug addiction, are inefficient because with them it is impossible for society to function, and much less so an economy based on these behaviors.¹⁰

The criterion may be formulated in three ways. Each one refers to each element's contribution to the system. That is, as Csikszentmihalyi (1996) says, when speaking of creativity we must take a systematic view. Instead of asking about individual creativity in isolation we should consider how to stimulate creativity in personal action, in entrepreneurial culture and in existing firms. We may formulate the coordination criterion with reference to each element. (1) Regarding firms the criterion is: the more personal possibilities for action they afford, the more efficient firms will be. (2) Regarding entrepreneurial culture: the more possibilities for action they foster, the more efficient cultural transmission mechanisms will be. (3) Regarding individual action: the greater its contribution to the firm and to entrepreneurial culture, the more efficient action will be. If we bear in mind that this separation is analytical and that the sole existing reality is the person in action, we may sum up the three criteria in just one: coordination improves if the process of creating culturally transmitted personal possibilities for action in firms is extended.

15.4 Towards a Good Entrepreneurial Practice (*Eupraxia*)

The “integrative revolution” presented by E. Freeman in the so-called “Friedman – Freeman debate” was based in four points: (1) abandon the separation thesis. Adopt (2) the integration thesis; (3) the responsibility principle; and (4) the open question argument. The starting point is the basic idea that is not useful to separate questions of business and questions of ethics. As Freeman says: “it does not make much sense to talk about business or ethics without talking about human beings” (Agle et al. 2008, p. 163). So the ethical viewpoint that I follow in this paper is that of the acting person, asking questions about what type of life is worth living (*eudaimonia*) in which society (*eupraxia*). Possibilities for action do not arise from a substance for

¹⁰ This efficiency criterion requires the two formulations in order to correspond to the two views of human freedom introduced at the beginning of the chapter. Our first formulation refers to the conception of freedom as ‘freedom from’. This first view presents the freedom of indifference. The second view corresponds to the concept of freedom as ‘freedom for’ or the search of excellence in action. See S. Pinckaers (1985).

acting on another reality. Possibilities are conditioned by the resources that the person has. That is to say, possibilities are not actual properties of humans, nor are they just given to us, naturally. As Aristotle said: “we are neither called good or bad, nor praised or blamed, for the simple capacity of feeling the passions; again, we have the faculties by nature, but we are not made good or bad by nature” (Aristotle, NE,II, 5, 1106a).

As Freeman says: “The integration thesis implies integrating business and ethics, around the idea of what human being is and can be” (Agle et al. 2008, p. 164). Ethics in the classical Aristotelian meaning of norms, goods and virtues (*areté*) is possible in a reality, which is constitutionally ethical because the person has to justify the creation of some possibilities and the blocking of others. What she truly has to justify to herself and what is going to definitely distinguish her morality is the general project of her life. The person has to justify the creation of some possibilities and the blocking of others, as well as the preferred possibility. She also has to justify, above all, the general attitude in the face of distinct systems of possibilities, in so far as this attitude conditions the moral decision of her life: what is going to happen to her and what she herself wants. Freeman further argues that “much of the theory that we teach in business schools is based on partial theories of human beings which are often derived from the separation fallacy (such as agency theory). They are not theories of whole, fully integrated human beings, with names, faces, families, and pasts, i.e., theories about actual business people” (Agle et al. 2008, p. 163). According to Freeman’s *Principle of Continuous Creation*: “business as an institution is a source of the creation of value” (Freeman 2000, p. 177). This concept disagrees with the previously mentioned Schumpeterian creative destruction idea. Schumpeter spoke of creative destruction, implying with this concept that every economic innovation was an abandonment of economic equilibrium. In his view each change impels the relations in the market, making it impossible to reach the state of neoclassical equilibrium. But in my opinion creative innovation cannot be a reduction, but rather an enlargement of the satisfaction of needs and an enlargement in the possibilities of action. So, the new combinations create a new source of potential value. As Freeman says: “the beauty of modern corporate form is that it can be made to be continuous, rather than destructive. One creation doesn’t have to destroy another; rather there is a continuous cycle of value creation that raises the well-being of everyone” (Freeman 2000, p. 177).

How do the above compare with Friedman’s theory? Milton Friedman, Nobel laureate for Economics, says: “The social responsibility of business is to increase its profits. Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible” (Friedman 1970). Even if we share Friedman’s idea, the following questions arise: How do we increase profits? What is the essence of the productive process? For example, the celebrated investor George Soros justifies his speculation against sterling in 1992 as follows: “As an anonymous participant in financial markets, I never had to weigh the social consequences of my actions. I was aware that in some circumstances the consequences might be harmful but I felt justified in ignoring them on the grounds that I was playing

by the rules. . . In deciding which stocks or currencies to buy or sell, I was guided by only one consideration: to maximize my profit by weighing the risks against the rewards . . . if I had tried to take the social consequences into account, it would have thrown off my risk/reward calculations and my chances of succeeding would have been less . . . Britain would have devalued anyway. If I were not single-minded in the pursuit of profit, it would affect only my own results” (Soros 1999, p. 228).

Another interesting example is the case of Enron. In its April 2001 issue, *Fortune* magazine called Enron, then seventh-largest company in the United States, the “most innovative” company in America. And that was done for six consecutive years since the mid-1990s. Its financial statement in 2000 reported a record-setting net income of \$1.3 billion, with recurring earnings per share up by 25 %, and a total return to shareholders of nearly 89 %. Even as late as 2001, Enron’s board of directors was named the third best board in the US by *Chief Executive* magazine (Sisón 2003, p. 24). Six months later on December 2, 2001, Enron filed for bankruptcy, the outcome of what has been called the greatest accounting fraud of the twentieth century.

In the light of the above examples, which can we consider a good entrepreneurial practice? Clearly if the object of Aristotelian ethics is *eudaimonia* understood as the life that worth living or flourishing, Freeman’s “open question argument” is what sort of society we want to construct? As the classic Greeks said that to live the good life one must live in a great city I agree with Solomon (1992) when he says “to live a decent life choose the right company”. In others words a decent life (*eudaimonia*) requires and fosters a right company (*eupraxia*). As Finnis points out: “in its fullness, that good or complex of goods is called *eudaimonia*, ‘happiness’ or, better translated, *flourishing*” (Finnis 1983, p. 8). With this I want to say that we need good theories to encourage good practices. We now know the consequences of applying bad theories to the business world as Ghosal (2005) masterfully explains. I do agree with Freeman that is time to finish the so-called “Friedman-Freeman” debate. Nobody would deny that earning money is necessary for economic survival. But as Freeman points out we need blood cells to live, but clearly the aim of our lives is not to generate blood cells. So Friedman’s statement is a partial picture of our social and economic process, but the questions how to earn money and what sort of society we want to construct remain unanswered.

All the fundamental Friedman’s work on micro theory of consumption, monetary policy and his defense of free market economy can be integrated in a more general and systematic framework. As E. Freeman says: “Better stakeholder theory focuses us on the multiplicity of ways that companies and entrepreneurs are out there creating value, making our lives better, and changing the world” (Agle et al. 2008, p. 166). We are going to consider other entrepreneurial practices quite different from those shown by G. Soros and Enron. Malden Mill company was founded in 1906 and is one of the few makers of textiles still operating in Lawrence, Massachusetts, New England (Velasquez 2006, p. 100). It has not relocated its operations to a third world country where labor is cheaper, as many competitors have done. On December 11, 1995, an explosion near a boiler room destroyed nearly all of the plant, putting nearly 1,400 people out of work 2 weeks before

Christmas. The next morning, with the factory in smoldering ruins, newspapers predicted that owner Aaron Feuerstein would do the smart thing and collect over \$100 million that insurers would owe him, sell off the remaining assets, and either shut down the company or rebuild it in a third world country where labor was cheaper and people are more desperately needy than American workers. But surprisingly, Feuerstein announced that the company would be rebuilt in Lawrence. In a move that confounded the industry, he promised that every employee forced out of work by the explosion would continue to be paid full wages, would receive full medical benefits, and would be guaranteed a job when operations restarted in a few months. Rebuilding in Lawrence could cost over \$300 million and keeping 1,400 laid-off workers on full salaries for a period of up to 3 months would cost an additional \$20 million. Feuerstein later said: "I have a responsibility to the worker, both blue-collar and white-collar. And I have an equal responsibility to the community. It would have been unconscionable to put 3,000 people on the streets and deliver a death blow to the cities of Lawrence and Methuen. Maybe on paper our company is now worth less to Wall Street, but I can tell you it is really worth more" (Velasquez 2006, p. 101). We can consider this case as an example of virtuous action. If we focus on prudence, Aristotle defines it as follows: "It is, therefore, necessary to consider prudence to be a disposition or state of the soul which partakes of logos and discloses the truth, being concerned with action in relation to the things that are good for human beings" (Aristotle NE, VI, 4–5, 1140b20-22). There are several layers in this definition. Let us take a look at them. The action of a virtuous person that is guided by prudence is a way of being, of dealing with things that is exclusive to humans. An action that is mediated by intelligence that is oriented at reality, at the truth of things. Action with a clear objective goal, i.e., to provide very specific goods, the human goods that are constituted in a socio-cultural environment; in our case, the firm.

15.5 Concluding Remarks

Economics is taught as the "assignment of scarce means along alternative ends" (Robbins 1969/1932, p. 16). In this definition economics is presented as a mathematical problem in which we have to allocate scarce means to given ends. But this canonical definition, accepted by mainstream neoclassical economics, is too narrow to represent the personal and social process that generates the real economic process. In Sect. 15.1 we have presented the inclination of mainstream economics for a rational construction of society. This has taught and propagated the bad business practice from which we are now suffering in our societies.

In this chapter we have started from individual action within her institutional and cultural framework. We have presented the firm as a social institution whose mission is to foster the possibilities of individual action. The core idea, based in Aristotle, is voluntary and free acts. We have moved away from the Robbins' definition of economics and we can say that the assignable act that characterizes

economics forms part of a constituent process voluntarily maintained by the person. The assignable aspect of the economic phenomenon is inserted within the dynamic process of creation and discovery of means and ends that every person realizes within her institutional and cultural background.

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