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Economic Rationality and a Moral Science of Business Ethics

Duane Windsor[1]

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Abstract This article examines the relationship between economic rationality and the possibility of a moral science of business ethics. The purpose of this inquiry is to consider whether a universal and non-controversial moral science of business ethics can be defined satisfactorily, and linked to economic rationality of managers and other stakeholders of firms operating in market economies. Economic rationality connotes economic efficiency, meaning a strictly instrumental maximization of actor utility from limited resources. This rationality is a universal and value free (or value neutral) axiom: actors should and generally will be rationally efficient. Utilitarianism accepting aggregation across values is the moral framework associated with market exchange. Business ethics is about normative valuation of motives, actions, and consequences. This article argues that the common foundation across relevant ethical frameworks – moral common sense, Kantianism, virtue theory, religion as a belief system, and utilitarianism – is a first or axiomatic principle of no harm without acceptable justification. A moral science of business ethics proceeds from this no harm axiom.

Keywords Business ethics · Economic efficiency · Economic rationality · Moral psychology · Moral science

Introduction

Business school education, most prominently in the U.S., is arguably dominated by a social scientific (or positivist) model exemplified by economics and psychology (see Thomas et al. 2013: 8). Economics informs finance; psychology informs marketing and organizational behavior.[1] This scientific model emphasizes empirical testing of

[1] Hartman (2015) explains arguments as to why psychology is not a science, and how to make psychology a science. Many academic psychologists presumably view themselves as scientists; and there is scientific method in psychological research.

✉ Duane Windsor
odw@rice.edu

[1] Jones Graduate School of Business, Rice University, MS-531, PO Box 2932, Houston 77252-2932 TX, USA

hypotheses logically derived from strong theory (that is, core logic). A fundamental or axiomatic assumption of economics is rationality (or efficiency) in utility-maximizing resource allocation.[2] Hartman (2015) addresses management rationality more broadly from an Aristotelian perspective. There are also in business education to markedly lesser degree a professionalism model (Howard et al. 2013: 8) and "models of stakeholder capitalism arguing that managers also need an ethical, moral and societal compass" (Howard et al. 2013: 66).[3]

This article examines the relationship between economic rationality and the possibility of a universal and non-controversial moral science of business ethics. The purpose of this inquiry is to consider whether a moral science of business ethics can be defined, and if so linked to economic rationality of managers and other stakeholders of firms operating in market economies. Economic rationality has strong theoretical and practical appeal, as distinct from whether there is also strong confirming behavioral evidence. The article considers whether a moral science of business ethics can be propounded on some universal and non-controversial foundation, and further placed in working relationship with economic rationality. Prescriptively, a manager should be rationally efficient and rationally moral. The author's view is that the problem is not simply a choice among or even a pluralistic combination of existing ethical frameworks: moral common sense, Kantianism, virtue theory, religion as a belief system, or utilitarianism (as the most relevant form of consequentialism).

The distinguishing attribute of economic rationality is that it is axiomatic for economic science. By axiom, the author means a postulated first principle as the logical beginning point for further reasoning. The corresponding axiom for a moral science of business ethics is that a firm cannot, in order to gain, cause harm without justification. Expressed differently, management or owners must provide a justification for harm; and the political community must concur with that justification through some widely acceptable process. An argument in favor of liberty to harm without such justification draws on some non-ethical axiom, such as social darwinism (London 1904).[4] The author argues that this no harm principle is the common foundation of the various ethical frameworks listed above. The implication for a moral science of business ethics is that normative standards for business conduct can be demonstrated to be universal and in principle non-controversial, in the same way that economic explanations and predictions can be regarded as scientifically objective rather than psychologically subjective (Wellman 1975).

Economic rationality (Arrow 1987) concerns the logic of choices under conditions of relative scarcity, in which any decision maker's wants exceed available resources (owned, borrowed, or controlled). This conception of economic rationality applies to the choices of all of the stakeholders of a firm. Value neutrality here means that the stakeholders may hold any personal (or subjective) values, under the principle of liberty, they prefer. Such values can inform an actor's notion of personal utility. Market prices reflect the interaction of demand and supply. While demand and supply functions may reflect empirical variation in actor values because those values define individuals' notions of utility, price theory in economics is neutral

[2] Behavioral economics and behavioral finance, drawing on psychology, investigate the bounds on economic rationality in human behavior in markets (see Chen et al. 2006).

[3] Windsor (2015) argues that as distinct from studying prescriptive philosophy (whether scientific, professional, or moral), managers develop personal operating philosophies focused on career survival and advancement within firms.

[4] J. S. Mill, *On Liberty* (1859) and the 1789 "Declaration of the Rights of Man and of the Citizen" constrain the natural right to liberty to a condition of no harm or injury to others. This constraint might define ethical egoism, aligned with utilitarianism in competitive markets. Ethical egoism is not a justification for harm to others.

with respect to those values. This value impartiality characterizes the classical hedonistic utilitarianism of Jeremy Bentham and J. S. Mill.

Business ethics concerns normative (or prescriptive) standards for business conduct on the supply side of the market economy. The question of a moral science of business ethics thus turns on whether there can be a universal and non-controversial exposition of such normative standards. The proposal in this article is that the axiomatic starting point, analogous to economic rationality (or efficiency) is the requirement that a firm cannot impose harm without justification. That is, a firm should be efficient and a firm should not impose non-justifiable harm in its activities. Many business decisions may harm someone: for instance competitors, dismissed employees, or out-negotiated suppliers – but these instances are justifiable and accepted as such by the political community (or regulated further).[5] While justifications can be controversial, the first principle that there must be justification for harm is universal and non-controversial in the same sense that Pareto efficiency is universal and non-controversial.[6]

Science has the general meaning of a logical (i.e., rational) and empirical inquiry into natural phenomena and human behavior providing explanation and prediction. Scientific methodology concerns testable explanations and predictions about reality. Science has both a theory component and an empirical component. For purposes of defining a moral science of business ethics, the author means that a first principle of no harm is theoretical and study of moral psychology of managers and the relationship between conduct and performance outcomes are empirical. For purposes of this article, the author does not examine in any detail the relationship between conduct and performance. Research by Barnett and Salomon (2012) suggests that both responsible and irresponsible firms can be profitable, although responsible firms can be more profitable and for longer. The difference may not be sufficient to influence managers reliably to responsibility.

The vital question is whether economic rationality, as a strong (axiomatic) assumption in economic science, is compatible with or antithetical to business ethics. Human motivation arguably lies at the foundations of economic science (Wilk 1993: 191). There are, however, two competing views of economics. Ghoshal and Bartlett (1997: 273) characterize economics as an amoral philosophy of management emphasizing purely instrumental relationships between the firm and its stakeholders, including society. In contrast, Boulding (1969) makes a case for economics as a moral science. In this view, Adam Smith's body of work could be interpreted as considering the relationships among economics, ethics, and jurisprudence (or government) (Brown and Forster 2013; Paganelli 2008; Wilson 1989). Integrative social contracts theory (ISCT) might be interpreted as focused at developing an economic ethics (Donaldson and Dunfee 1995).

Economic science rests on utilitarianism, understood as aggregation of consumers' preferences in a competitive market economy. The theory of consumer sovereignty asserts that consumers, the demand side of the market economy, ultimately should determine the production of goods and services by the supply side (Hutt 1936, 1940; Persky 1993; Viner 1938). This assertion is literally axiomatic in Adam Smith, *The Wealth of Nations* (1776, Book Four, Ch. 8):

[5] Belgium regulates reduction in force, for example, in ways that can make such reduction costly for a company.

[6] In Pareto efficiency, a change from the status quo benefiting one actor is non-controversial if there is no harm to any other actor. Such a condition is proof of an efficiency improvement. In contrast, Kaldor-Hicks efficiency involves a change from the status quo benefiting some and harming others: the change might be defensible if the gains are greater than the harms, such that the gainers could hypothetically compensate the losers. Justifications are the essence of the Kaldor-Hicks criterion.

> Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.

Consumer sovereignty is axiomatic. Economic rationality is axiomatic. Whether a prescriptive assertion is empirically realistic is a different matter.

> "To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens" (Adam Smith, *The Wealth of Nations*, 1776, Book One, Ch. 11).

The article examines requirements for a moral science of business ethics in this context. Adam Smith provides a definition of good citizenship and an assertion that self-interested decision makers can be (at least partly) impartial. "He is not a citizen who is not disposed to respect the laws and to obey the civil magistrate; and he is certainly not a good citizen who does not wish to promote, by every means in his power, the welfare of the whole society of his fellow-citizens" (Adam Smith, *The Theory of Moral Sentiments*, 1759, VI.ii.2, 6th ed.).[7]

Heilbroner (1953: 38) interprets Smith's *The Theory of Moral Sentiments* (1759)[8] as arguing that a self-interested individual can assume the position (or posture) of an impartial spectator (or neutral and fair observer) and thus understand the moral considerations of a situation from another's perspective (see Coase 1976; Paganelli 2010). This impartial spectator is in effect a third person involved in any transaction or relationship between two participants. Both those participants can act similarly so as to form a sympathetic appreciation of the objective rather than self-interested merits of a particular case. The participants need not act on pure self-interest except as a matter of choice rather than as a matter of necessity.[9]

[7] One can compare Smith's definition to W. H. Vanderbilt and J. P. Morgan. W. H. Vanderbilt (1821–85) allegedly expressed to a reporter that "The public be damned!" Quoted in J. R. Daughen and P. Binzen, *The Wreck of the Penn Central* (Beard Books, 1999), pp. 34–35. Vanderbilt denied making the statement; and more certainly the profanity. J. P. Morgan (1837–1913) allegedly expressed to a reporter that "I owe the public nothing." Quoted in *New York World* (11 May 1901) during the Northern Pacific "corner." S. Gittelman, *J. P. Morgan and the Transportation Kings* (University Press of America, 1912), at p. 49, citing C. Lewis, *The House of Morgan* (1930). "Alleged" means that the statements might or might not have been made, depending on one's view of journalistic standards of the time.

[8] The "Adam Smith Problem" concerns whether *The Theory of Moral Sentiments* (1759) and *The Wealth of Nations* (1776) conflict or are compatible in vital aspects (Paganelli 2008). The present article presumes sufficient compatibility.

[9] "Moral imagination refers to the ability to perceive that a web of competing economic relationships is, at the same time, a web of moral relationships. Developing moral imagination means becoming sensitive to ethical issues in business decision making, but it also means searching out places where people are likely to be hurt by decision or behavior of managers. This moral imagination is a necessary first step, but because of prevailing methods of evaluating managers on bottom-line results, it is extremely challenging" (Werhane 1999: 5). "One of the most consistent findings is that good people do bad things. We're not talking about an issue of character; that oversimplifies matters. Good people do horrendous things in the workplace because they don't see the situation as an ethical dilemma. They see it as a business problem to be solved." – Professor Arthur Brief (Director of the Burkenroad Institute for the Study of Ethics and Leadership in Management, Tulane U.), quoted by Teuke (2004: 58).

Adam Smith's view of business emphasized self-interest pursuit and denigrated affecting to act in the public interest (Baumol 1976). This view expected that competition would control self-interest for the general good as if through operation of an "invisible hand" (Baumol 1976). A different view of the relationship between economics and ethics was presented by Knight (1922, 1923). Citing Knight, Coase (1960: 43) was clear that ultimately aesthetics and morals underlie welfare economics (cited in Donaldson 2011). The financial and economic crisis of recent years poses serious reservations concerning the likelihood of Smith's expectation, unfortunately (Posner 2009). Jensen (2002) emphasizes appropriately the positive economic development and growth effects of market capitalism since 1776; against which Karl Marx's view seems increasingly wrong (Baumol 1976). Voluntary self-regulation by business managers should combine with competition and governmental regulation to provide a more robust safeguard of the general good (Baron 2010; Dunfee 2000).

To this point, formulation of a moral science of business ethics has proceeded axiomatically, in analogy to postulation of economic rationality. However, economic rationality is a postulate within an empirical science of economics. A moral science also should explain likely range in moral psychology of business managers and predict their behavioral choices (see Gardner 2007). That is, a moral science of business ethics is in part prescriptive with respect to theory and in part empirical with respect to managerial behavior (laying aside here the relationship between conduct and performance outcomes). This range can be quite wide. A typology of managers ranges from "sinners" (i.e., self-indulging immoral actors who practice self-interest) to "saints" (i.e., self-regulating moral actors who consciously practice virtues of altruism, integrity, and responsibility) (Sachdeva et al. 2009). In between sinners and saints are amoral actors who respond to incentives affecting their calculus of personal benefits and costs (including reputation and inter-personal trust). Public policy might aim at punishing sinners, deterring amoralists, and encouraging saints. Non-moral decision makers may strategically conceal true convictions. Moral psychology may involve intuitive choice and post-choice rationalization rather than careful, objective analysis (Sonenshein 2007). Considerable empirical research is building up about moral psychology (Bazerman and Gino 2012; Bazerman and Greene 2010; Bazerman and Tenbrunsel 2011; Gino et al. 2010). Managers may choose to be moral, virtuous, religious, or rule compliant (i.e., Kantian). It is utilitarianism which presumes value neutrality (or impartiality); and it is ethical egoism which constrains liberty by a condition of no harm caused.

That economics as a discipline is a science is not disputed, although what kind of science economics may or could be has been disputed. Robbins (1932) argued that economics is a social science of human action using deductive reasoning rather than a natural science using inductive reasoning. This methodological perspective dominates modern economics (Atkinson 2009; Backhouse and Medema 2009; Howson 2004). Friedman (1953) subsequently emphasized that the assumptions for deductive reasoning need not be realistic in any conventional sense. As addressed later in this article, in contrast to Robbins, Keynes characterized economics as a moral science rather than a natural science. There are significant differences among economic rationality as a logic of choice, behavioral economics as evidence of what real decision makers choose, and economics as a moral science (see Boulding 1969).

That business ethics can be a moral science in a similar sense is much more debatable. Boulding's (1969: 1) definition is as follows: "A moral, or ethical proposition, is a statement about a rank order of preference among alternatives, which is intended to apply to more than one person. … A moral proposition then is a 'common value.'"; "Every culture, or subculture, is defined by a set of common values, that is, generally agreed upon preferences. Without a core of common values a culture cannot exist …" There are two linkages between economic rationality and a moral science of business ethics. One linkage concerns the nature of science. The notion of "science" strongly suggests logic, if not rationality, confirmed by empirical evidence. Economic rationality takes definition within the science of economics, understood as the most efficient allocation of scarce resources. The other linkage concerns the nature of "values" understood as the hierarchy of preferences: a decision maker may prefer A to B, in circumstances in which either A or B but not both must be selected.

The article is organized following this introduction as follows. The second section discusses economic rationality. The third section, which is the core of the article, discusses a moral science of business ethics. The final section discusses implications for business ethics education and public policy design.

Economic Rationality

In general terms, there are three alternative approaches to economic organization: (1) traditional or customary; (2) centralized authoritarian command; and (3) market system (Heilbroner 1953: 10–11). There are varieties of capitalist market economies, such as laissez faire, mixed or regulated, and social economy. Rational behavior might be different in each setting, varying because of conditions.

Nevertheless, rationality has the broad connotation of reasonableness: a rational person makes reasonable decisions based on facts or logic of a situation. Rationality may occur widely across human behavior in the sense of utility maximizing choices (Becker 1976b). Utility-maximizing rationality can include altruism (Becker 1976a; Simon 1992). A rational decision cannot be ill-considered opinion or abstract belief. Economic rationality has the general sense that more is better than less; and thus that cost-effectiveness, holding a goal or target constant, is preferable to inefficiency. A cost-benefit orientation compares costs to benefits and selects the highest ratio of benefits to costs available.

Economic rationality is subject to varying interpretations, selection among which will be influenced by one's moral psychology as well as external incentives such as public policy and organizational climate. Moral psychology, as used in this article, means broadly how a person views decision making. A person might be strictly self-interested and opportunistic,[10] or be socially oriented, or be altruistic.[11] Henry Sidgwick's dualism addresses the conflict between prudence (i.e., self-interest) and benevolence (i.e., altruism) (McLeod 2000). Sidgwick treated ethics as a study of right and wrong prescribed for individuals, and reached through some rational method of ethics (Frankena 1974).[12] Ethics is individual and rational; it is different from morality of individuals or politics concerning social choices (Frankena 1974).[13]

[10] Banfield (1958) reported for a South Italian village practice interpreted as "amoral familism" which he defined as morality within the family and absence of citizenship toward others. Miller (1974) reported no empirical support for Banfield's interpretation of the conditions in a South Italian village.

[11] Wilk (1993) points out that the debate over whether human nature is self-interested or altruistic dates back to Hobbes and Locke. He provides the three models of motivation - selfish, social, and moral - referenced here. Wilk argues that the problem of human nature should be recast from philosophical to empirical.

[12] Frankena cites Henry Sidgwick, *The Methods of Ethics*, 7th ed. (London, Macmillan, 1907).

[13] "When Mill pointed out that economics had no ultimate solution to the problem of distribution, that society might do with the fruits of its toil as it saw fit, he introduced into the mechanical calculus of the market a conflicting calculus of moral judgment. … the assertion of independent conscious decision about the ends we *desired* from the economic process …" (Heilbroner 1953: 307).

The essence of economic rationality, as a type of rational choice theory, is that a decision maker should select that investment option which maximizes return from deployment of scarce resources. In simplified form, if the decision maker has \$1 to deploy then a \$2 return (100 %, above return of principal) is superior to a \$1 return (0 %, reflecting return of principal only), which is turn is superior to a loss of investment (−100 %). Uncertainty can be handled by making the return an acceptable certainty equivalent rather than a perfectly reliable forecast.

There are three general criticisms of a narrow conception of economic rationality. (1) This definition of economic rationality posits that the goal preference of the decision maker is maximization of monetary return. The preference or value function of the decision maker can be changed to include other considerations, such as voluntarily accepted ethical constraints. Moral psychology can be incorporated. (2) The choice among 100 %, 0 %, and −100 % returns is rational only if the decision maker takes account of all benefits and costs. Harm to others is a violation of the requirement (Windsor 2013b). If the decision maker is successfully sued for civil damages or fines, the return may shift from 100 to −100 % or more. (3) The choice is rational only in a setting in which there are zero negative externalities and no monopoly power (i.e., workable competition); otherwise the individual's choice does not aggregate to social choice as implied in the utilitarian theory underlying market economics (Jensen 2002). External incentives and moral psychology lead decision makers to make choices about (1), (2), and (3) that can undermine economic rationality individually and socially.

Specification of an individual's preference function need not formally be restricted to single objective to be maximized (Brekke et al. 2003; Rabin 1995). Jensen (2002) does argue that manager's face practical difficulties in doing anything else (see Strine 2012, 2014). Nevertheless, formally a preference function – even for the manager working in a publicly traded firm – can include economic and ethical objectives; or an economic objective can be subject to a voluntary ethical constraint just as it can be subject to external legal or stakeholder pressure constraints. "The model of man that has dominated the neoclassical tradition in economics comprises two separable core assumptions, rationality and self-interest" (Vanberg 2006: 1; see also Vanberg 2012). Rationality need not be strict self-interest. Adam Smith's impartial spectator and the formal specification of a preference function with a moral dimension argue to the contrary.

A Moral Science of Business Ethics

The AACSB International – the dominant business school accrediting body for the U.S. – adopted in 2013 a revised stance that ethics, social responsibility, and sustainability are dimensions of its curriculum standards.[14] How to implement the stance is not specified in any further detail.

There are a number of common objections to business ethics education and normative theorizing. The objections below are ordered so as to move approximately from individual to firm to society to global economy. This article does not undertake to criticize each objection in detail.

[14] John J. Fernandes, President & CEO, AACSB International (retiring), "Looking Back on a Legacy," *BizEd* (February 26, 2015), describes the 2013 AACSB revised accreditation standards (adopted April 8, 2013 and revised January 31, 2015) for business programs (Standard 9 – curriculum content) as follows: "Now, we want schools not only to help their students develop a strong sense of ethics, but also to make sure students understand social responsibility and sustainability—of the planet, of the organization, and of society. Someone could be highly ethical without being socially responsible or committed to having a positive effect on society."

(1) Moral character of individuals forms early in life; and thus there is no useful point to business ethics education in university – where "shelf-space" is valuable. One might emphasize the importance of safeguarding personal and organizational reputation in a market economy; one might emphasize the legal consequences of misconduct. This point was addressed directly in Piper et al. (1993: 14), as a naive view. When and how moral character – a broad notion – forms and becomes fixed, if it does, is a scientific rather than philosophical question, one more fit for developmental psychologists than for economists to assess (see Berkowitz 1997; Berkowitz and Bier 2004; Gardner et al. 2001). "Just as it is difficult to define character and find consensual labels for character education, it is difficult to summarize what contemporary character education entails" (Berkowitz 2002: 45). "'The workplace is a school for ethics,' said [K. E.] Goodpaster. 'Ethics education goes on throughout one's life and it's not over at any point; it keeps going all the way to the grave.'" (Warmack 2003).

(2) Moral beliefs and values are inherently subjective, and thus a matter of personal choice (or culturally shaped upbringing) not subject to criticism by others – so long as one does not violate established "law" regulating conduct in business. There is then no objective standard for universal prescriptive ethics (Shiffrin 1999).

(3) Conventional business ethics education tends to cultivate the skill of self-serving rationalization rather than the skill of "giving voice to values" (Gentile 2012).

(4) The purpose of business is to maximize wealth for owners (whether shareholders in a publicly traded firm, or owners of a private firm), subject to legal compliance and basic ethics (Friedman 1970).

(5) Mores (that is, beliefs and practices) reflect cultural relativism: what is regarded as ethical in one country may not be ethical in another country (Wellman 1963). Cultural relativism can be linked to an argument that "Western" countries impose their values on "developing" countries (Nussbaum 1999).

(6) Markets tend to be self-correcting and voluntary self-regulation by businesses should thus be sufficient; government regulation tends to be excessive and welfare-reducing. (For a review, see Lad and Caldwell 2009). A business thus has no moral duties (negative or positive) beyond legal compliance; and in this context is free to influence the legal "rules of the game" to self-advantage. The recent financial and economic crisis has generated understandable concerns about this view (Posner 2009).

A moral science of business ethics – a science about actual behavior and proper conduct of business managers – is partly a study of moral psychology and partly an attempt to provide a scientific foundation for ethical and public policy prescriptions. "Values" form the interface between economics and ethics.[15] "Values are the principles and standards that motivate us in life. They are our basic convictions; our belief that tells us what is right, good, or worthy. They guide our thinking and actions like an internal compass" (Woodward and Shaffakat 2014).

J. M. Keynes characterized economics as a moral science in distinction to a natural science (see Gruchy 1949). In 1938, he wrote: "… economics is a branch of logic, a way of thinking;

[15] "Today's employees think their number one objective is to be thought of as decent people doing quality work. We all have a much greater consciousness of ethical issues. With the [Martin Marietta ethics] program, you are less likely to get into trouble, and you feel better about yourself. The [ethics] program has also helped us compete. We have been afforded opportunities because we were trusted." – Norman R. Augustine (CEO of Martin Marietta, later CEO of Lockheed Martin), quoted in Paine, Choy, & Santoro, "Martin Marietta: Managing Corporate Ethics (A)," HBS Case 9-393-016 (1992, revised 081704), p. 1.

… Economics is a science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world. … as against Robbins, economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgments of value. …"[16] He wrote further: "I also want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations, psychological uncertainties."[17]

In *The Wealth of Nations*, to quote extensively, "Smith never uses the term 'capitalism;' [as distinct from 'capital'] it does not enter into widespread use until the late nineteenth century. Instead, he uses [at I.4.1, V.1.180] 'commercial society,' [as distinct from 'commercial or mercantile system' at IV.1.1] a phrase that emphasizes his belief that the economic is only one component of the human condition. … he is also clear that the moral character of a people is the ultimate measure of their humanity. … Smith asks why individuals should be moral. He offers models for how people should treat themselves and others. He argues that scientific method can lead to moral discovery, and he presents a blueprint for a just society that concerns itself with its least well-off members, not just those with economic success. … For Smith, the market is a mechanism of morality and social support" (Weinstein 2015).[18]

The understanding that economics is a deductive approach to scientific investigation of human behavior places a moral science of business ethics on a similar foundation. The starting point of formal ethical theorizing, in consequentialism and Kantianism, is typically posited rationality of the individual (Goodpaster 1983). This formal presumption or requirement of rationality dates back to at least Hobbes.[19] Individuals may have beliefs, convictions, and values grounded in theology, moral intuitionism, or virtue development (Goodpaster 1983). These beliefs, convictions, and values foster moral exemplarity in action (Walker 2002; Windsor 2013a).

The methodology of business ethics should proceed from an equivalent starting point that, as expressed in a proposed hierarchy of moral common sense, businesses should try at a minimum to avoid harming others (Goodpaster 1984: 5).[20] Harm requires explanation and justification. On the contrary, businesses should be trying to generate benefits for as many as possible compatible with some criterion for profitability. Unlike a natural person (who could be subjected to a similar standard), a business holds a license to operate and to do so in the public interest. The relationship between avoiding doing harm and doing good is discussed further in the final section of the article.

One can argue, reasonably enough, that this starting point is narrow. "Those who accept a normative account of morality, e.g., Bentham and Mill, which takes the avoiding and preventing harm element of morality to be most important, criticize all actual moralities that

[16] July 4, 1938 letter to Roy Harrod, #787, http://economia.unipv.it/~dbesomi/edition/editionstuff/rfh.346.htm

[17] July 10, 1938 letter to Roy Harrod, #791 http://economia.unipv.it/harrod/edition/editionstuff/rfh.34a.htm#36302

[18] J. R. Weinstein authored *Adam Smith's Pluralism: Rationality, Education and the Moral Sentiments*. New Haven: Yale University Press, 2013. See review by Smith (2014).

[19] Gert (2011): "My definition of what I take to be the universal normative sense of "morality," requires a normative sense of "rationality," such that no moral agent would ever advise anyone for whom he is concerned, including himself, to act irrationally. The concept of rationality described earlier satisfies this condition because no moral agent would ever advise anyone for whom he cares, including himself, to act in any way that harms himself with no compensating benefit to anyone."

[20] Spinoza (1677) developed a systematic approach to ethics by geometrical demonstration, drawing on Euclid and Descartes. The present study is narrowly focused on business ethics.

give precedence to purity and sanctity when they are in conflict with avoiding and preventing harm" (Gert 2011). "The final characteristic of morality — that it has the lessening of evil or harm as its goal — is also somewhat controversial" (Gert 2011).

"An explicit goal of the ISCT project was to improve on the practical guidance of general ethical theories such as utilitarianism, Kantianism, virtue ethics, or the stakeholder model. By their very nature, these general ethical theories will always remain insufficiently specific to provide concrete practical guidance" (Wempe 2008: 1140). Donaldson and Dunfee leave hypernorm evolution as likely some hybrid of rational and empirical bases (1994: 278) including "a real-world convergence of religious, philosophical, and cultural beliefs" (1999: 57); "political thought" is also noted at a different point (1999: 50). International agreements, such as the UN Convention against Corruption (UNCAC), can be characterized as *Morals by Agreement* (Gauthier 1986).

The moral psychology of business managers involves fundamentally the choice between maximizing personal wealth and engaging in some form of virtuous behavior. This choice is partly an empirical matter and partly a prescriptive matter. This choice problem is obviated if good conduct maximizes personal wealth better than bad conduct does.

The primary goal of the shareholders of the publicly traded corporation, organized as a C corporation, is presumably shareholder value creation (Strine 2014).[21] Jensen (2002) criticizes the empirical likelihood of shareholder value maximization. Ghoshal (2005, p. 79) criticized business school education and research for fostering the managerial belief in shareholder return freed from "any sense of moral or ethical responsibility for their [managers'] actions." Jack Welch, former CEO of General Electric, was highly critical of shareholder value on the grounds that value is an outcome and not a strategy; it is strategy, dependent on stakeholder engagement, that generates value (Guerrera 2009). A related perspective argues that purpose precedes profitability.[22] The resulting active debate emphasized two counter-arguments. First, managers were highly receptive to the combination of shareholder return and agency theory; this combination proved attractive to practitioners (Kanter 2005). Second, the problem is not that managers put shareholders first, but that they put themselves first (Skapinker 2005). It is desirable and necessary to put forward an alternative to shareholder value and agency theory (Skapinker 2005).

However, this goal is "a little vague" and not subject to "a definitive answer" (Ross et al. 2002: 15). Empirically, the agency problem implies that "the basic financial objective of managers: [is] the maximization of corporate wealth. Corporate wealth is that wealth over which management has effective control; it is closely associated with corporate growth and corporate size. Corporate wealth is not necessarily shareholder wealth" (Ross et al. 2002:

[21] Strine is Chief Justice of the Delaware Supreme Court (2014–2026) and previously Chancellor of the Delaware Court of Chancery,

[22] George W. Merck, CEO, Merck & Co. (during 1929–57): "We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered it, the larger they have been." Address to the Medical College of Virginia, Richmond (December 1, 1950); quoted in J. Collins and J. I. Porras, *Built to Lastn Successful Habits of Visionary Companies* (New York: HarperBusiness, 1994), p. 48. Steve Jobs, CEO, Apple: "My passion has been to build an enduring company where people were motivated to make great products. Everything else was secondary. Sure, it was great to make a profit, because that was what allowed you to make great products. But the products, not the profits, were the motivation. It's a subtle difference, but it ends up meaning everything. The people you hire, who gets promoted, what you discuss in meetings." Told to biographer Walter Isaacson, quoted in R. Foroohar, "What Would Steve Do? Jobs was a jerk, but his leadership lesson is more about product than personality," *Time* (27 February 2012), p. 18.

16).[23] Survey information from 401 financial executives and in-depth interviews from another 20 financial executives found that a strong majority strongly preferred smooth earnings over economic value creation or volatile earnings. The reason is that they expect negative market reaction to missing earnings targets or to increased uncertainty due to volatile earnings. A majority would avoid initiating even a very positive net present value (NPV) project if the initiation caused missing current quarter consensus earnings. The study found stock price motivations for earnings management and voluntary disclosure choices (Graham et al. 2005).

Strategic management of the firm, and sustainable profitability over time, involves effective stakeholder engagement: "There is … evidence that the diverse claims of customers, vendors, and employees must frequently be considered in the goals of the corporation" (Ross et al. 2002: 17).

There are two business exceptions to the agency problem of the publicly traded corporation. The privately firm business is the same as an individual or household; and the owner(s) can make the choice (Friedman 1970). Some variant of the B Corporation can be formed on a different principle than shareholder wealth creation (Strine 2014).

Discussion of Implications

Economic science posits economic rationality, meaning economic efficiency in resource allocation, as the logic of utility maximization. A moral science of business ethics can develop analogously through a rational logic. The proposal in this article is to work from a first no harm principle for a firm. Harm by a firm requires justification. This first principle should be non-controversial, with controversy occurring over how to define harm. Instances of direct injury to health and safety of individuals are the Blue Bell listeria incident, the peanut salmonella incident, the Deepwater Horizon explosion, and the Takata air bag crisis. The Deepwater Horizon spill also generated negative externalities in the form of oil pollution of the Gulf of Mexico. A series of vitamin pricing cartels illustrate monopolization efforts. AT&T has been fined for deception and fraud concerning transmission speed slowing. None of these instances of harm have justifications.

A moral science of business ethics begins with this first principle of no harm without justification. Empirically, the science will also concern the relationship between conduct and performance outcomes; and the moral psychology of managers in choosing among various ethical frameworks including here ethical egoism as well as morality, virtue, religious belief, or Kantianism. Moral philosophy is not disconnected from this project of a moral science of business ethics. The project would seem simpler than a broader project of a moral science of ethics for individuals not in business contexts. Business ethics is a narrower problem, since firms are socially licensed and operate in a stakeholder environment. Individuals and businesses are equally subject to a no harm principle, in a long tradition reaching back to the "Declaration of the Rights of Man and the Citizen" (1789) and J. S. Mill's *On Liberty* (1859).

[23] "I mean not, however, by anything which I have here said, to throw any odious imputation upon the general character of the servants of the East India Company, and much less upon that of any particular persons. It is the system of government, the situation in which they are placed, that I mean to censure, not the character of those who have acted in it. They acted as their situation naturally directed, and they who have clamoured the loudest against them would probably not have acted better themselves." Adam Smith, *The Wealth of Nations* (1776), Book Four, Ch. 7, Part 3.

Windsor (2013b) develops distinctions among corporate social irresponsibility and corporate social responsibility as follows. It is irresponsible to disobey laws or to violate ethical norms beyond scope of existing laws, on the general basis that such misconduct imposes non-justifiable harm on others. (There is a defensible exception for civil disobedience situations.) It is responsible to engage in corporate citizenship generating social benefits beyond scope of existing laws. Much more harm in the world is caused by businesses is due to violation of laws or ethical norms, rather than by absence of business philanthropy.

Strine (2012: 136) argued in favor of B corporations that C corporations cannot realistically be expected to behave other than to seek profit: "Instead of recognizing that for-profit corporations will seek profit for their stockholders using all legal means available, we imbue these corporations with a personality and assume they are moral beings capable of being 'better' in the long-run than the lowest common denominator." He (2012: 136) also argued against corporate self-regulation in favoring of "government still has a critical role in setting the rules of the game." Otherwise, "we delude ourselves into believing that corporations will effectively regulate themselves" (Strine 2012: 172).

The emphasis on shareholder return has come under challenge in legal literature on corporate governance. The substance of this challenge is that: (1) corporate governance law does not require profit maximization as a strict and sole purpose, the "business judgment rule" being irrelevant otherwise; and (2) if corporate governance law did so, such a strict and sole purpose would be bad public policy contrary to the public interest (Elhauge 2005; Stout 2008; see Macey 2008, for a critique).

Virtuous business managers should be concerned with moral leadership and social responsibility. Franco Bernabè, who was CEO of first Eni and then Telecom Italia, contended that: "Leadership is fundamentally about humanity. It is about morality. Your primary job as a leader is to see what is good for your organization and what is good for the people who work for you, and to create something for the well-being of your fellow citizens" (Hill and Wetlaufer 1998: 98). Alfred North Whitehead (1933: 124; cited in Morris 1997: 131), the philosopher, contended that: "A great society is a society in which its men [and women] of business think greatly of their functions."

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Duane Windsor (PhD, Harvard University) is the Lynette S. Autrey Professor of Management in Rice University’s Jesse H. Jones Graduate School of Business. His research focuses on corporate social responsibility and stakeholder theory. His articles have appeared in various journals including Business & Society, Business Ethics Quarterly, Journal of Business Ethics, and Philosophy of Management.