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REFRAMING ECONOMIC ETHICS

The Philosophical Foundations of Humanistic Management

Claus Dierksmeier

Humanism in Business Series

Series Editor

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The Humanistic Management Network is an international, interdisciplinary, and independent network that promotes the development of an economic system with respect for human dignity and well-being. The Humanistic Management Network defends human dignity in face of its vulnerability. The dignity of the human being lies in its capacity to define autonomously the purpose of its existence. Since human autonomy realizes itself through social cooperation, economic relations and business activities can either foster or obstruct human life and well-being. Against the widespread objectification of human subjects into human resources, against the common instrumentalization of human beings into human capital and a mere means for profit, we uphold humanity as the ultimate end and principle of all economic activity. In business as well as in society, respect for human dignity demands respect for human freedom. Collective decision-making, in corporations just as in governments, should hence be based on free and equal deliberation, participation or representation of all affected parties. Concerns of legitimacy must, in economics like in politics, precede questions of expediency. We believe that market economies hold substantial potential for human development in general. To promote life-conducive market activities, we want to complement the quantitative metrics which hitherto define managerial and economic success with qualitative evaluation criteria that focus on the human dignity of every woman and every man. As researchers, we work towards a humanistic paradigm for business and economics, trying to identify and facilitate corporate and governmental efforts for the common good. As a think-tank, we set out to spread intellectual tools for culturally and ecologically sustainable business practices that have the human being as their focal point. As teachers, we strive to educate, emancipate and enable students to contribute actively to a life-conducive economy in which human dignity is universally respected. As practitioners, we act towards the implementation of a humanistic economy on an individual, corporate, and governmental level. As citizens, we engage our communities in discourse about the benefits of a human-centred economy.

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Reframing Economic Ethics

The Philosophical Foundations of Humanistic Management

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To all the students worldwide fighting for a curriculum change in economics and management studies.

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– Dierksmeier, Claus. 2015. Human dignity and the business of business. *Human Systems Management* 34: 33–42.
– Hühn, Matthias, and Claus Dierksmeier. 2014. Will the real A. Smith please stand up!. *Journal of Business Ethics* 12: 119–132
– Dierksmeier, Claus. 2013. Kant on virtue. *Journal of Business Ethics* 113(4): 597–609.
– Dierksmeier, Claus, and Anthony Celano. 2012. Thomas Aquinas on justice as a global virtue in business. *Business Ethics Quarterly – Special Issue on Virtue Ethics* 22(2): 247–272.
– Dierksmeier, Claus. 2011. The freedom-responsibility nexus in management philosophy and business ethics. *Journal of Business Ethics* 101: 263–283.

- Dierksmeier, Claus, and Michael Pirson. 2010. The modern corporation and the idea of freedom. *Philosophy & Management* 9(3): 5–25.
- Dierksmeier, Claus and Michael Pirson. 2009. Oikonomia versus Chrematistike. Aristotle on wealth and well-being. *Journal of Business Ethics* 88(3): 417–430.

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Contents

CHAPTER 1

Introduction

Abstract Recent economic crises have further fueled the debate over the social impact of economics and management education (Krugman 2009; Shiller 2010; Ötsch und Kapeller 2010). Former fixtures of the conventional wisdom of the economics discipline—such as the macroeconomic quest for ever more growth and the microeconomic pursuit of profit—are now held responsible for many social, ecological, and moral failings of the present economic system (Pirson and Steinvorth 2014). Behind this critique and propelled by it, a deeper shift in economic thought is arguably happening. After about 200 years of imitating the methods of the natural sciences and their positivistic approach, and after decades of relegating any and all normative considerations to the margins of business theory, a paradigm shift appears possible in the direction of a more realistic and thus more relevant framework for economics, i.e. humanistic management (Amann 2011).

Keywords Humanistic Management • Business Ethics • Economics • Economic Ethics • Philosophy

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In order to understand the public discontent with professional economics and the notable search for alternatives to or within the neoclassical framework—"new economic thinking," "postautistic economics," "heterodox economics," "pluralist economics," to name but a few of the most prevalent movements—we need to dwell on the relationship between business practice and management education. At present, business schools are being blamed for having equipped students with a worldview that makes them skeptical at best and hostile at worst toward a morally responsible and environmentally sustainable conduct of business (Gioia 2002, 2003; Goshal 2003, 2005; Elegido 2009). In the recent past, the very ethics that our economic system *de facto* relies upon has been taught merely alongside—often at the very margins of—the standard offerings in business and economics (Matten and Moon 2004). This setup is more than unfortunate, as it confronts students with two wholly contrary approaches to the business world: freedom versus necessity (Dierksmeier 2009).

In traditional classes, students are being instructed along the lines of the neoclassical economics, that is, within a paradigm that prescribes profit-maximization in such a manner as to offer little-to-no leeway for alternatively oriented decision-making, for example, in favor of morals. Iron laws of *structural necessity*— students are being told—rule the economy to the effect that the market dictates managerial behavior. In their business ethics classes and in courses on sustainability or humanistic management, however, students then encounter, as a no-less fundamental but obverse premise, the doctrine of *human freedom*, now being introduced as the indispensable foundation of any and all managerial responsibility. In unmediated confrontation, these contrary viewpoints lead to a schizophrenic worldview (Dierksmeier 2011a).

Students often resolve this cognitive double bind in a turn against ethics (Hühn 2014). Against moral theories they object, for instance, the "dog-eat-dog" reality of business would not allow for any or much decent behavior. Practitioners in their majority, however, value investments in Corporate Social Responsibility (CSR) and sustainability programs as not only reducing costs (building reputation, avoiding litigation, etc.) but also as generating otherwise precluded profits (through the quest for novel channels of productivity and innovation as well as through access to more goodwill on the part of employees and customers). And they express this view the stronger, the more and the longer they have garnered practical experience with sustainability programs, as a study of more than 1400 CEOs worldwide by *The Boston Consulting Group* documented (BCG 2009). So, when students dismiss the feasibility of ethically responsible management, they react apparently less to the reality of business than to its portrayal in economic textbooks. Consequently, when—as ever more studies show—graduates leave business schools with weaker ethical standards than they had upon entry (for a good survey see Elegido 2009), it shows that management education does indeed have a marked impact on students, albeit a negative one (Net Impact 2007a, b, 2008). This is the regrettable outcome of a pedagogy which undermines the very premises upon which ethical and humanistic management rests (Pfeffer 2005).

This dismal situation will persist as long as management education fails to engage in deeper-reaching reflections on the true nature of economic theory and practice. As discussion in management theory and in business ethics is both framed and influenced by the teachings of economics, we need to investigate how the conceptual basis for any form of corporate responsibility, that is, managerial freedom, is described in economic theory (Dierksmeier 2011a). In economics, however, managerial freedom often tends to be neglected (as inessential and powerless against market forces) or depreciated (as a source of deviations from rational efficiency rules). Exceptions to this trend, such as the works of Amartya Sen, still prove the rule (Sen 2002). The same can be said, a few exceptions apart (Drascek and Maticic 2008), for management literature. As long as this state of affairs persists, the very premises of all corporate responsibility remain in question and, consequently, corporate investments in business ethics are bound to appear to students as futile: as naïve efforts at best and as an irresponsible waste of corporate resources at worst (Friedman 1970; Jensen 2002).

In order to change this situation, we have to unearth the foundations for moral action within economic theory, making ourselves aware of how past philosophical positions and methodological assumptions (namely epistemological materialism and quantitative reductionism) have framed the economic mind such that the dimension of moral freedom and responsibility was all but obliterated. Especially, we have to examine how and why economic theory began construing human agency within the narrow confines of the *homo economicus*-model, devising the corporation as a mechanistic clockwork in a freedom-averse pursuit of profits. Against these traditions and through a deconstruction of their axioms, the real leeway of managerial discretion and the immanent responsibilities of corporate decision-making deserve to be emphasized (Brodbeck 2000).

Over the last years, ever more economists have begun to inch away from the long cherished *homo economicus*-model and from management models that directly rely on it, such as *principal/agent*-theory, which, incidentally, has been given up by its very author, Michael Jensen (Erhard and Jensen 2011, 2014). Against former depictions of human behavior as merely a rational pursuit of utility-maximization, more and more economists—especially institutional economists, behavioral economists, and neuro-economists—and a host of management scholars today advocate for a broader set of objectives, including normative ones, and vie to present their theories as amenable to demands for social, ecological, and moral sustainability. Eventually, it stands to argue, economics as a whole might cut itself loose from its old positivist moorings (Walsh 2003). We are observing, in short, a return of ethics to economics (Hausman and McPherson 1993; Dutt and Wilber 2010).

There is much to be said in favor of these developments. Economic action, after all, stems from human agents acting from human concerns. And *descriptions* of economic behavior match reality only when being observant of the moral *prescriptions* that inform such behavior at the individual level (Dierksmeier 2011a). As economists have also long since admitted, the subjects that drive the economy are not animated maximization-algorithms but beings in deep and manifold relations with their sociocultural contexts (Veblen 1898; Pigou 1962). And these contexts, surely, are replete with moral meaning. It is high time, therefore, that the ethical dimension of economic life also be reflected in the research agenda, theory, and pedagogics of economics and business studies.

Why indeed would economics, as a discipline dealing with human behavior, prefer to work with models emulating the study of inanimate objects? Why not rather orient its methods toward interpreting the lively interactions of free subjects? Recent advances in behavioral economics, empirical game theory, and neuro-economics as well as in various fields of psychological and sociological research on economic agency suggest that economics does indeed need a new anthropology (Etzioni 2010; Chibnik 2011; Fehr and Rangel 2011; Glimcher and Fehr 2013). In order to cease being the proverbial "dismal discipline," economics should pay heed also to the findings of the social sciences and the humanities (Melé and Dierksmeier 2012). The mechanistic anthropology of neoclassical economics will arguably have to yield to a renewed concern for the interconnected dimensions of human life in relation with nature, society, and culture. Economists cannot on one hand emphasize the uncertainty or the fluidity of human knowledge, while on the other shielding their discipline from the historicity and culture-dependency of human existence that are the origin of those vicissitudes. A richer, more contextualized depiction of economic agency is necessary because only realism brings relevance and enables responsibility (Dierksmeier 2011a).

In this book, I draw as a conclusion from these observations that since values and virtues are not marginal to economic *practice*, they no longer ought to be relegated to the role of mere side constraints to the logic of maximization in economic *theory*. Instead, I contend, ethics proffers an important orientation for questions of economic strategy. Indeed, for most of the recorded history of economic thought, economic theory at least was inspired and organized by ethical orientations, which provided an overarching purpose and thus an overarching conceptual unity for the variegated normative goals of business and economy (Bonar 1893; Alvey 1999). I hold that in order to capture human economic agency adequately we must concentrate and elaborate on that inherent normativity of economic thinking (Sen 2002).

Reflections on human nature and values have been at the forefront of economic thinking for more than 2000 years, from ancient times up to the late eighteenth century. From "stone age economics" (Sahlins 1972) via Plato and Aristotle to Adam Smith, that is, for about several thousand years, economic thinking was firmly linked to metaphysical, theological, and moral reflections. The Greek philosophers treated economics as part and parcel of their overall reflections on the common good of the *polis*. The theologians of the Middle Ages likewise subordinated economic questions to their discourses about the good and pious life, and still the philosophers of the Enlightenment pursued economics with an overall perspective to the emancipation of the human being from constraints (Bonar 1893).

Nota bene, this includes economic heroes of the time such as Adam Smith (1723–1790), who, holding a chair for *moral philosophy*, penned a voluminous *Theory of Moral Sentiments* (1759), long before he investigated the reasons for *The Wealth of Nations* (1776). Although after Smith economic philosophy (then conducted mostly under the name of *national* or *political economy*) emancipated itself from theology, it remained oriented at the ideal of the common good (see Sect. 3.3). While the discipline narrowed its focus down to the concrete legal and cultural embedding of a given economy, rather than pondering in the abstract about its philosophical essence and purpose, economists continued to see the overall welfare of a given people or nation as the supreme goal of their discipline. In fact, only because of a broadly shared consensus among economists that the goals of the economy were legitimately defined by a national political system—hence the term "national economics" in fashion from roughly the 1750s on—did economists find it appropriate to concentrate on the more technical questions of their discipline such as the reduction of scarcity.

Today, in search of orientation for contemporary efforts to reconcile economic with social and ecological sustainability, we ought to reappropriate this wisdom of the ages. My book wants to contribute to that effort. Whereas typically reformist agendas in economics and management education are focused on the present and its pressing needs, I am courting the insights of the past. I hold that while we must be informed by the present, we ought not be beholden to its perspectives. A too adamant attachment to current viewpoints keeps us glued to the very paradigms that led us into the crisis. Colloquially put, in order to "think outside the box," we first need to recognize the very "box" we are trapped in. Hence we need to observe the initial construction of the "box," that is, we ought to trace the historical steps that led up to the current (mechanistic) paradigm of business in order to see where it went wrong and how we can escape it (Dierksmeier 2011a). Hence this book traces the history of economic ideas—from Aristotle through Smith and Kant up to the present day—in a critical reconstruction. By helping readers realize what (and how much) of the current economic worldview is socially construed, the text prepares for its thoroughgoing reform through "humanistic management" (for an introduction see Spitzeck et al. 2009).

In all, this essay aims to accomplish four goals. First, the reader will see that ethics is not an outward imposition on the economy and economics but rather a building block of their sustained success. Second, one will come to understand the differences between the major ethical schools of thought that still contend with one another today. Third, a synthesis of these schools that combines their respective strengths shall be presented. Fourth, the readers will be prepared conceptually to participate in current discussions around humanistic management and a humanistic reform of business education.

All four parts of this essay rely on as well as defend one major thesis: I argue that neglect of the idea of freedom in economics in recent decades has led to an inadequate conceptualization of the ethical responsibilities of corporations within management theory. Theories of business ethics and corporate responsibility, I hold, are fundamentally dependent upon conceptions of managerial freedom. If we want to bring ethics (back) into business, we cannot stop short of a thoroughgoing epistemic and methodological reform of economics in light of the idea of freedom (Dierksmeier and Pirson 2009). Together with that realization comes a concentration on the supreme moral value of all: human dignity. We must, I propose, find a way to answer to the needs of the era of globality with a cosmopolitan ethos (Dierksmeier 2011b). This ethos, however, cannot and must not be outwardly imposed on humanity but ought to be inspired by the very values people of all cultures and times have embraced voluntarily. A global economic ethic, I shall argue, has to rest on the dual premise of the autonomy of each and the cosmopolitan responsibility of all.

I unfold and support this thesis in the following steps: In Chap. 2 on "The Mechanistic Paradigm," I show how current management problems can be traced back to mistaken management theories which, in turn, are based on misguided economics. The mechanistic approach to economics emerged around the year 1800, and was characterized by an intentional mimicking of the methods and epistemic aspirations of natural sciences in the realm of economic theory. Mechanistic economics tries to break down all economic behavior into its smallest constituent parts in order to predict its future course by modeling it according to mathematical formulae. Through this methodological filter, however, much of what constitutes economic practice is not admitted into economic theory. As a result, precisely those aspects of the human condition that enable individuals and institutions to advance the course of an ethical economy are eliminated from economics. For that reason, we need to revert back to a tradition of human-centered, value-oriented economics.

Instead of reinventing the wheel, present economics may well learn from the long-standing tradition of ethical thought in the history of economic thinking. A first major milestone of economic ethics was reached with the "Teleological Paradigm"—portrayed in Chap. 3—that dominated much of classical economics. From Aristotle via Thomas Aquinas, up to and including Adam Smith (i.e. from 400 BCE–1776 CE), there was a clear consensus that economic theory and practice needed to be both legitimated and limited by a certain ethical goal (Greek: *telos*). I shall highlight the strengths of this "teleological paradigm" and its invaluable normative insights before also addressing the serious difficulty that meets its immediate reintroduction into the economic discourse of the present.

Most antique and medieval ethics were challenged by enlightenment philosophy, as they relied on metaphysics, resting either on speculative, theistic, or deistic premises. Doubt in these metaphysical doctrines, however, was a major factor for the rise of the modern "mechanistic" paradigm in economics. A theory that wants to meet the needs of "open" (i.e. diverse, pluralistic) societies thus cannot go back behind the insights of the enlightenment era but must rather integrate and transcend them.

The plurality of convictions in the contemporary world, the inevitable platform of our analysis in Chap. 4, "The Liberal Paradigm," impacts the way we conceptualize ethics at present. Contemporary economic philosophy, therefore, has to reconstruct the insights of ancient, medieval, and early modern thought within the ambit and conceptual frame of freedom philosophy. The ethics of Immanuel Kant is a paragon of how to address this issue. His philosophy reconciles the idea of freedom with an ethics comprised of duty and virtue. It is all-important that we learn to capture this historic insight systematically in terms that speak to us today. I intend to advance this goal by construing a theory of responsible liberty ("qualitative freedom") in light of which present ethical challenges to corporate governance and management can be addressed.

Last, we transit into the contemporary period of economic philosophy characterized by the attempt to merge the major insights of both the teleological and the liberal traditions into one coherent "Humanistic Paradigm." In this chapter, I summarize the arguments, previously made in abstract, focused on a concrete problem: the role and status of human dignity in business ethics. And I argue that the principle of dignity can be only safeguarded for current endeavors in economic thinking based on an idea of "qualitative freedom." We need to give dignity a conceptual form that reconciles the unity and diversity of normative aspirations of humanity. Then it can well serve as the bedrock for an intercultural dialogue on a cosmopolitan ethics in the age of globality.

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CHAPTER 2

The Mechanistic Paradigm

Abstract This chapter presents management problems and traces them back to mistaken business theories based on a misguided "mechanistic paradigm" of economics. Mechanistic models, mimicking the methods of natural sciences, became popular in the realm of economic theory soon after the year 1800. Mechanistic economists attempted to break down all economic behavior into its smallest constituent parts such as the rational pursuit of self-interest of economic agents. Through this methodological filter, however, much of what constitutes everyday economic practices does not enter into economic theory. As a result, precisely those aspects of the human condition that enable individuals and institutions to advance the course of an ethical economy—personal freedom and responsibility—were eliminated from mechanistic economics. This led to the externalization of responsibility from the concept of economic freedom, much to the detriment of any and all interests in the social, moral, and ecological sustainability of business.

Keywords Economics • Utilitarianism • Maximization • *Homo economicus* • Principal/agent-theory

This chapter examines why and how the idea of freedom was gradually removed from the canon of economics. Through a critical review of the history of economic ideas, this reconstruction aims at a deconstruction

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of certain axioms of neoclassical economics that hamper contemporary efforts in integrating ethics firmly into management education. These deconstructive endeavors have a constructive purpose. They open the requisite intellectual space in management theory for the idea of responsible freedom. In later chapters, this gives us the requisite platform to complement the current quantitative focus in business theory through qualitative orientations, which in turn allow for a strategic integration of the tenets of both business and economic ethics into business practice.

2.1 The Road to "Value-Free" Economics

Management theories do not exist in isolation from economic theories; without the latter, the former lack important foundations. Indeed, if economics were to show conclusively that business, by its very nature, was incapable of incorporating any and all moral behavior, musing about humanistic values, sustainability management, and business ethics would be futile. We have to scrutinize economic theory, therefore, and determine whether the necessary preconditions for moral and humane action exist within the business world.

All responsibility presupposes freedom, and corporate responsibility makes no exception; the demand for (more and better) corporate responsibility requires managerial freedom, for example, the freedom to deviate from maxims of sheer profit-maximization in favor of more comprehensive managerial objectives. In other words, the *practical* realization of corporate responsibility is premised on the *theoretical* realization of the factual as well as potential freedoms of management to pursue alternative courses of action. For any normative approach to corporate conduct, the topic of *managerial freedom* is consequently of central importance.

Yet the mechanistic nature of the still prevalent paradigm of neoclassical economics, where corporations are portrayed as "machines" for profit-maximization, subject to iron laws of competition, seems wholly impervious to considerations of free agency (Brodbeck 2000). The ubiquitous language of profit-maximization lives off a quantitative vocabulary and follows a mathematical grammar. Economic actors, within this linguistic scheme, are assumed as being in pursuit of managerial objectives which—ideally, albeit not factually—could be advanced by replacing human judgment with algorithms. Leeway in managerial decision-making thus appears to be something that—in favor of optimal performance—ought to be reduced to zero. In standard economic theory, managerial freedom is consequently not viewed *positively* as an intellectual space for the exercise of corporate responsibility and human ingenuity, but *negatively* as something that, for the time being, cannot quite be eliminated; a tribute reluctantly paid—theoretically—to the uncertainties of a still imperfect science of econometrics and—practically—to the inevitable vagaries of human factors in business environments.

Before, however, we take these conventional language-games for granted and accept all-too-readily those familiar metaphors, let us ask: How did this corporate self-image come about? Where does it have its roots? Is it contingent upon context, and can it thus be altered with and by the latter?

Not only in antiquity and the Middle Ages but indeed up until the late nineteenth century, *qualitative* ends oriented the economic discourse. They defined the understanding of subjective well-being and objective welfare, and how either should be pursued. Only in the last 150 years, a drift occurred that brought about the contemporary outlook of economics, where a self-imposed restriction to *quantitative* analysis predominates. How did this change come about?

In an effort to become just as "scientific" as their colleagues in the natural sciences, economists of the late nineteenth century consciously began to cut their discipline off from the social and political sciences and allied themselves with the methodological apparatus of physics and mathematics (Wieser 1884). In an attempt to analyze economic problems "purely," that is, without resorting to extrinsic values or doctrines, ever more economists looked to the mathematical models of physics, especially mechanics, in search of a new paradigm (Walras 1909). The enormous success that the discipline of mechanics had celebrated after the publication of Joseph- Luis Lagrange's *Mécanique analytique* (Paris 1788) inspired John Stuart Mill (1806–1873), Auguste Comte (1798–1857), and numerous others to describe economic structures as quasi-mechanical laws that could, ideally, be translated into the language of mathematics.

While mathematical mechanics gave the new paradigm its formal aspect, utilitarianism contributed to the material side, with the effect that the entire discipline of economics was now recast as a "mechanics of utility and self-interest" (Jevons 1871, p. 90). The utilitarian contribution came initially from Jeremy Bentham (1748–1832) and James Mill (1773–1836). From dissatisfaction about the quarrels of metaphysicians over the salient norms of political and economic decisions, they decided to *subjectivize* the hitherto *objective* realm of values. Instead of asking what would be right for all people due to human nature, they asked what would benefit specific individuals. In an egalitarian move against traditional, often class-oriented interpretations of Aristotelian and Scholastic ideas of distributive justice, they sought to enhance the utility of each in order to serve the happiness of all. The utilitarians weighted the utility of each person just the same, and the ventured one could achieve consensus on what was conducive to overall welfare, if one measured what people actually appreciated, instead of ranking what they ought to value. Thus began the notion of *aggregate interest* to replace the idea of the *common good* (Spiegel 1971, pp. 341–343).

Motivated by the forces of *pain* and *pleasure*, human behavior seemed a natural phenomenon like any other, open to empirical observation and technical manipulation. This view coincided, moreover, with a strong emphasis on self-interest as the main driver of human action, which Bentham believed to be "predominant over all other interests put together" (Bentham 1954, p. 421). For Bentham, however, the subjective *intensity* of a given pleasure or pain is objectively inscrutable and not susceptible to precise measurement. This dimension of the pleasure/pain-assessment, therefore, remains inexorably *qualitative* (Warke 2000).

In order to make utility theory fit for mathematical treatment, William Stanley Jevons (1835–1882) changed Bentham's definition of utility as a function of an (immaterial) increase in personal happiness into denoting "the abstract quality whereby an object serves our purpose, and becomes entitled to rank as a commodity" (Jevons 1871, pp. 44–45). Through this "materialization" of utility into a function of (readily quantifiable) commodity consumption, Jevons wanted to "treat the Economy as a Calculus of Pleasure and Pain" (ibid., p. VII). With "pleasure and pain as positive and negative quantities" (ibid., p. 38), the project of making economics amenable to algorithms could proceed without further impediments. The vexing problem of societal utility *optimization* was translated into the simpler one of quantitative *maximization* of commodity consumption. Later changes in the utility concept (such as Alfred Marshall's move away from direct commodity consumption toward the indirect willingness to pay for goods) (Marshall 1890, pp. 15–16) did not alter the outcome: Economics had operationalized (moral) concerns of "better" over "worse" into a (technical) calculus of "more" over "less."

Moreover, the utilitarians gave the cold shoulder to the idea of the "freedom of the will," as for their theoretical purposes "freedom of action" entirely sufficed. Philosophers typically value the notion of free will in order to establish the possibility that we might alter our first-order preferences (e.g. a given desire for something) through second-order preferences, or meta-preferences (e.g. the wish not to be beholden to this desire), so that we do not become the slaves of our wants. Since utilitarians, however, blithely endorse the pursuit of (whichever) pleasure, they see little need for such subtleties. Freedom for Bentham, as for numerous Anglo-American economists and social philosophers afterwards, is consequently defined solely as against outward coercion, not against inward inclinations (Bentham 1970, p. 254). The idea of freedom so endorsed is of a merely "quantitative" sort, aiming, as it does, only for the maximization of (and choice between) given options, while discarding as useless all "qualitative" dimensions of the idea (Dierksmeier 2007); a highly problematic reduction in meaning which we shall discuss further in Sect. 5.2.

Jevons awaited a thoroughgoing empirical disclosure of the human mind. "The time may come, it almost seems, when the tender mechanisms of the brain will be traced out, and every thought reduced to the expenditure of a determinate weight of nitrogen and phosphorus" (Jevons 1874, p. 735f.). Hence economics might one day become apodictic and prognosticate human behavior, thus ridding itself of the vexing efforts to observe it empirically. Jevons's shrill ideal of an axiomatic science without any need for the cumbersome tools of social statistics and historical observation was reinforced when the utilitarian turn to a subjectivist value theory in England joined forces with an important move within Austrian economics toward the theory of "marginal utility," spearheaded by the works of Carl Menger (1840–1921).

Austrian economics no longer gauges the objective value of a good in and of itself, nor in reference to its moral quality or social function, but from how given subjects value an additional unit of the commodity in certain situations (Menger 1871, p. 143). To the thirsty man in a desert (an additional unit of) water is more valuable than (an additional unit of) gold (Menger 1871, p. 113). Various technical differentiations in the works of Menger's followers aside, the general gist behind this notion was a clear move from *substantial* value estimates toward *procedural* assessments (expressed in prices), which reinforced the utilitarian turn from *objective* to *subjective* value theories (Hayek 1952, p. 256).

Only by discarding the notion of the objectivity of values, Menger believed, conceptual confusions could be avoided (Menger 1871, p. 86) and economics had a chance to become an exact science based on natural laws (ibid., p. 8). Along came a retreat from metaphysical theories about the free will, as Menger felt they threatened his epistemological program of describing human behavior with just as much precision as physical events. Postulating a freedom to alter the will that drives human behavior put into peril the very mechanical regularity of transactions upon which the claim of economics to scientific exactitude was premised (Menger 1871, p. 8).

The relevance of these methodological shifts is patent: Up to Adam Smith, economic theories operated with the notion of *objective* values not only to *describe* reality but also *prescriptively*, with a view to correct aberrant subjective evaluations. For instance, through criticizing the miser for hoarding too much, antique, medieval, and classical economists in unison rejected the value here subjectively ascribed to money as objectively too high. On the contrary, theories which generate the value of given commodities from their subjective appraisals in exchange relations do not establish any such critical distance to their objects. The prescriptive and counterfactual use of economic value theory thus collapses.

These implicit consequences of the subjectivist turn of economics became most explicit in the "*Werturteilsstreit*" at the beginning of the twentieth century (Backhaus and Hansen 2000). In controversies that lasted more than a decade, German economists and social scientists debated intensely about the proper role of value judgments ("*Werturteile*") in economics. Especially Max Weber (1864–1920) and Werner Sombart (1863–1941) disputed one another over the question of whether the discipline of economics should solely be descriptive, or also contain critical and prescriptive elements. Ultimately, Weber's view that economics should no longer aim to evaluate the goals of economic activity prevailed. The discipline was to confine itself to explaining how the economy worked, and leave its normative assessment and transformation to politics (Weber 1904, 1918).

In the early 1900s, the quest to sever economics from normative moorings represented the *zeitgeist*. At the time, Neo-Kantian philosophers had derived from Kant's distinction between the *theoretical* and the *practical* realm of reason a strict bifurcation between *facts* and *norms*. While, in principle, this still implied the possibility of treating economics as part of the *moral* sciences, namely the realm of normative reasoning, this door was firmly shut, in practice, by the "*Wiener Kreis.*" Otto Neurath declared knowledge should from now on be sought through the methods of *natural* science alone. This "physicalism" was to be applied to all academic disciplines, which is why Neurath suggested renaming the Vienna Circle as "Wiener Kreis des *Physikalismus.*" The employment of any methods other than empirical observation and analytical thinking was deemed illegitimate (Neurath 1931).

The nonempirical dimension of values being ostracized, economists committed themselves to what was left: determining the most intelligent use of scarce resources for given goals. Embracing the idea of normative neutrality and versatile utility, this is the intended import of Lionel Robbins's canonical formulation: "Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses" (Robbins 1932, p. 16). Economics had, in short, become a value-free, positivistic science, whose policy advice rested in *hypothetical* imperatives alone: *If* a community wanted certain goods, *then*—under this *condition*—economists were to examine how to achieve these in the most cost-effective way (Friedman 1953). *Categorical* imperatives, however, explicating *unconditional* demands, had to be avoided.

Up to date, many economists still refuse to discuss the appropriate (individual and social) objectives of economic activity. Still, qualitative value judgments are shunned (Stigler and Becker 1977), because much of contemporary economics continues to rely on testing its theories in merely quantitative terms (Lucas 1998). Admittedly, economists of the twentieth century have somewhat updated their linguistic arsenal. Instead of old-school Newtonian physics and its mechanical imagery, thermodynamics and entropy laws are now supplying the metaphors. Economics was quick to construe a connection between the *Le Chatelier*-principle (describing the tendency of chemical systems to restore their equilibrium after disruptive influences) and economic systems (Samuelson 1947, p. 36) or to map the correlation between chaotic microstates (of gas molecules) and their orderly macrostructures onto market economies (May 1947, p. 59).

Such attempts to update the economic jargon to the latest science lingo overlook however crucial differences between physics (old or new) and economics (Mirowski 1988). Physicists are observing closed physical systems, whose predominant attribute is a reversibility of their respective states across time, whereas the economy is an open and self-referential social system. In nature, open ("dissipative") systems require the input of outside energy in order to restore their own balance and so become both time- and context-sensitive, which introduces irreversible traits into their internal development (Prigogine 1977). The more self-referential these systems become, the more they are influenced and individualized by their *historical* development.

The appropriate *analogon* for the human economy in the natural world would thus not be mechanical entities but highly developed biological systems, keeping in mind that biological systems, over time, attain not merely one but various distinct *equilibria*. Then, however, the metaphor most loved by economists (i.e. of predetermined *equilibria* restoring themselves to their anterior states after disruptive influences) must yield to quite another; that is, one that allows for several *equilibria* in the history of the respective economic system resulting from the unique confluence of specific internal and external influences. A properly made analogy with nature points us *not* to the *neoclassical* view of an autarchic—some would say "autistic"—economy but to the depiction of a culturally embedded and socially interactive economic system as prevalent in the teachings of *institutional* economics (Mirowski 2002).

Yet still there remains a fundamental problem with carrying over methods and metaphors from the natural sciences because economics does not have *matter* as its epistemic object but lively human *action* (Solow 1997). Obfuscating "that its subject-matter is living and free men" (Pigou 1962, p. 9), who make up their own minds before responding to outside *stimuli*, the *physicalism* of economics invites a variety of explanatory errors. Economic prognosis is a particularly patent case in point. In economics, prognoses are an eminently self-influencing phenomenon (Schumpeter 1954), not only on stock markets. In physics, an influence of the observer and/or the observation on the observed is the exception (occurring only in the subatomic processes investigated by quantum physics), not the rule, whereas in economics, feedback-loops between theory and practice are a standard phenomenon (McCloskey 1994). Other than physical systems, human beings form *theories* about their contexts and act not simply driven by internal or external material causes, but upon the *interpretations* they make of their life-worlds. The reflective reaction of economic actors on economic prognoses, for instance, points us away from mechanistic economics and toward a richer anthropology that includes the free and spiritual relationship of the human being to itself. We must acknowledge that, for better or worse, theory impacts practice.

2.2 From Theoretical to Practical Realizations

Economic activity is, as Thorstein Veblen already put it, not just "something incidental to the process of saturating given desires. […] All economic change is a change in the economic community—a change in the community's methods of turning material things to account. The change is always in the last resort a change in habits of thought" (Veblen 1898, pp. 390–391). For that reason alone, the shopworn belief, however, that "quantitative" and "non-normative" equals "scientific" is often mistaken (Douglas 2009, pp. 70–73). Certain realities, especially theoretical ones, can only be described qualitatively, not quantitatively, but this makes them neither less real, nor less important (Marcuse 1964, p. 147). Many arguments can only be formalized into algorithms very late in the scientific process, and some perhaps never—but that does not make them less reasonable or relevant for economic practice (Chamberlain 1948; Bergmann 1989). Quantitative reductionism can thus be positively harmful whenever it causes a self-immunization of economics against vital information which does not fit its paradigm.

Outside mathematically ideal worlds, algorithms for managerial action (e.g. in pursuit of profit-maximization) cannot even be formulated, so that in the real and unstable world of business life the "scientific" approach often proves inept (Marglin 1999, p. 134). Thus the maximization-oriented econometrist describes most accurately a world that does not exist *in lieu* of providing orientation for the one that does (Boettke 1997). Thus "the prestige accorded to mathematics in economics has given it *rigor*, but, alas, also *mortis*" (Heilbroner 1979, p. 196). Moreover, mistaken theories are not just a problem for theoreticians. They negatively impact practice. Regard for the quantifiable alone creates a world in its own image: a world of matter in motion, devoid of qualities, ideas, and values (Marcuse 1964, p. 164). For once the counterfactual power of values and normative ideas is excluded from the scope of scientific rationality, the choice of values, by implication, is tainted as a merely subjective and hence largely arbitrary matter, deprived of rational objectivity.

Thus, the mechanistic paradigm entraps the mind in a vicious circle: Defining—first—economics as a merely quantitative science, its proponents—second—exclude all objective values (because of their nonquantifiable nature) from its domain, and—third—conclude that the counterfactual dimension of values is not amenable to scientific scrutiny. They then conclude—fourth—it would be illegitimate to engage their science in morally scrutinizing and criticizing individual value choices ("ends"), which—fifth—helps justify the current focus in economic research solely on the maximization of utility (through "means") that—sixth—appears to justify the predominance of quantitative over qualitative categories in economics; *quod erat demonstrandum*.

The mechanistic paradigm has dire consequences. People, as a rule, only realize chances they spot. More academically put, the *theoretical realization* of certain options is a precondition for their *practical realization*. Thus do our mental models frame not only our perceptions of the world but also curtail our interactions with it. As we pointed out already, the inherent *physicalism* of the mechanistic paradigm of neoclassical economics has much to do with the notable reluctance of economists to scrutinize *historical* change in the business world (Shackle 1972). The objects of prequantum physics, after all, remain unchanged; past scientific progress in physics has therefore often resulted from an increasingly more subdivided and highly specialized description of matter. In their efforts to imitate the epistemic progress of physics, economists decided, too, for greater specialization. Carving up their field into ever-smaller subdisciplines and observing them with ever-finer instruments, they hoped to force the elusive nature of economic laws to come to the fore (Galbraith 1986, p. 411). Instead of its intended goal, this vivisection of the economic patient achieved an insulation of certain theoretical realms from pertinent (qualitative) data from neighboring fields and disciplines.

There is, after all, no such thing as "the economy" or "the market" outside time and space. Economic activity takes place at certain locations, in ever varying forms, subject to diverse cultural and political influences. Consequently, to abstract from all such internal and external imports is mistaken. When change occurs in several social subsystems at once, more comprehensive (qualitative, normative, hermeneutical) perspectives prove superior to *ceteris paribus*-("all other things equal")-assumptions (Chytil 1941, p. 17). Due to the holistic nature of various socioeconomic phenomena, any overly segmented analysis is bound to keep out truly causal factors and so to ascribe causality to what are, actually, irrelevant, albeit contiguous phenomena.

The deductive nature of mathematical logic, the hallmark of contemporary economic research (Knight 1921, p. 3), can be held responsible for this resistance to accommodating social change in economics. This argument—the critique of "atomizing" the elements of economic theory—refers back to another debate between German economists, the "*Methodenstreit*" between Carl Menger and Gustav von Schmoller (1838–1917). This dispute is often falsely reduced to a mere rivalry between inductive and deductive approaches—and then far too hastily reconciled with the assertion that, surely, both methods somehow have their place somewhere in economics (Haney 1949). Truly at issue was the *epistemic significance* of either method (Bostaph 1978).

For the more inductively oriented "historical school," context codefines the content of concepts so that the assumption of an *absolute* economic truth beyond time and space makes little sense (Schmoller 1883). Economists have to base their theories on statistical and other forms of observation in order to view economic processes "holistically," that is, together with the constellations wherein they are embedded (Schmoller 1893). On the contrary, the "axiomatic" or "isolationist" approach supposes that through conceptual work one can ultimately arrive at the "simplest" elements and thus at the true "essence" of economic reality, from where then logical deductions (employing the laws of identity, contradiction, and the excluded third) can reveal further economic truths—of *absolute* epistemic status (Menger 1883). This method, which at the time was the procedure of choice in mathematical mechanics, was meant to provide the causally *explanatory* part of economics, relegating all observational methods to a secondary, merely *illustrative* status.

The lure of Menger's promise of exactitude and certainty won the day. Never since did the "historical schools"—which at the time of the controversy were predominant—regain their former standing in the discipline. When economic laws, however, are being deduced from axiomatic assumptions about economic agents and markets, without taking account of inductively gained empirical information about said agents and markets, one is prone to misjudge either: Forgetting that free human beings are the *factors* behind economic *facts*, we project the very rigidity of our method onto individuals and society, perceiving them, falsely, as subjected to unalterable laws.

Other than the laws of gravity, though, which do apply no matter what we think about them, the structures of economic behavior are being influenced by our notions and ideals. As more inductively oriented economists have shown time and time again, an alteration in human attitudes changes economic behavior, thus eroding many an allegedly eternal economic "law" of yesteryear. Our freedom and the ideas about its responsible use do, of course, play an eminent role in the economy (Nguyen 2000), albeit one which certain methods cannot adequately capture. Economics therefore would service society better were it to match the complexities of reality theoretically (Sen 2002).

Methodological choices in economics impinge on policy advice as well as on management education. A deductively generated belief in mechanical market-forces that will ultimately always restore a perfect equilibrium, lends itself naturally to *laisser-faire* implications. John Bates Clark (1847–1938), for example, suggested: "However stormy may be the ocean, there is an ideal level surface projecting itself through the waves, and the actual surface of the turbulent water fluctuates about it. There are, likewise, static standards with which, in the most turbulent markets, actual values, wages and interest tend to coincide" (Clark 1899, p. 3). Given that belief, it may well seem best not to mess with the awesome natural forces that, in the long run, will put everything right (Mises 1940). Yet thus we fall prey to biases of our methodological framework. The market is, after all, not a natural but a social product, not a physical object but a cultural construct. For this reason, Keynes quipped: "*In the long run* we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again" (Keynes 1923, p. 65). As an astute observer of the actual occurrences at Wall Street and the London Stock Exchange, Keynes knew that, once disturbed, some markets do not automatically and by themselves restore their erstwhile equilibrium but require concerted human action to regain their proper functioning; a position which provided adequate responses to the 1929 crisis. Compare this insight with the view of Ludwig von Mises, who, enthralled by the deductive doctrines he espoused, still in 1931 recommended passive quietism as the apt answer to said economic depression (Mises 1931). Method matters; Mises thus prepared academically the neoliberal euthanasia of both economic politics and of the idea of corporate social responsibility that his disciples would help execute (Friedman 1962; Hayek 1970).

The methodological constructs used by economic theory are hence by no means innocent devices. Whenever extraeconomic or nonquantifiable factors affect the economy, each method which blocks out such factors as irrelevant leads to false conclusions for economic policy and business practice. A solely deductive approach to markets, for example, based, as it is, on assumptions of perfect information, perfect competition, perfect rationality, and so on will typically establish that markets are nothing but *transaction plateaus* for *human freedom*. Neutral to any and all human aspirations, their outcomes will appear, in this logic, as but the congealed result of *free choices* and *mutually beneficial exchange*: spontaneously established liberal orders of all-around fairness and reciprocal utility. Any interference would hence be economically as *ineffective* as it would be ethically *illegitimate* (Waligorski 1990).

Overlooked is thus that market economies, under real conditions, favor the exchange of easily "marketable" goods and services. *Commodifiability* limits practically the entry of *phenomena* into the market economy as much as *quantifiability* restricts theoretically the entry of *noumena*—that is, conceptual entities—into economics. Their purported neutrality notwithstanding, both market economies and market economics have a strong systematic bias in favor of exchangeable and against nonsubstitutable goods (diZerega 1997).

The professed neutrality of economics is an illusion (Ulrich 2008). Although contemporary economics forfeits explicit (categorical) orientations, it still employs implicit (hypothetical) orientations. Else economists could neither unite all the subdisciplines of their science under a common research perspective, nor formulate any tangible recommendations. Economics, simply put, needs a common denominator of what it considers as microeconomic and macroeconomic success. As economic reasoning no longer aims to optimize the qualitative direction of economic activity, economic rationality must, by default, turn to maximize the utmost quantity of utilities. Imperceptibly at first but at last quite markedly, economics thus arrived at ascribing to individual economic agents and to economies as a whole a preference of "more" over "less," defining all economic agency as "maximization behavior" (Samuelson 1947).

The fact that the broader business media likes to measure macroeconomic success in terms of the *Gross Domestic Product* and microeconomic success through the *bottom line*, is by no means incidental. Starting out as an innocuous technical hypothesis, *maximization* has long since arrogated a normative role. When, for instance, economists subject policy options to *cost/benefit*-analyses, and caution against anything that costs more than it earns, the policy recommendations so inferred, express *de facto*—despite all postulated neutrality—a value judgment in favor of growth and/or gain.

Commodities pricing is facile, but the same cannot be said for the Monetization of values, ideas, and aesthetic phenomena. The latter demand much subtler forms of evaluation and often withstand quantitative assessment throughout. If this quantitative incommensurability of qualitative entities is not being factored into our *cost/benefit*-analyses, the outcome of such seemingly neutral, "scientific" decision-making procedures will, in fact, be quite partisan; forever coming out in favor of higher commodity production in the stead of alternative uses of collective resources. Thus does removing the qualitative and normative objectives from economics surreptitiously drive a "progress toward the wrong goals" (Galbraith 1986, p. 409). Moreover, the less economists recognize themselves as shaping the reality they observe through their very "descriptions," the less cautious—that is, sensitive to the social consequences of its advice—they tend to be (Galbraith 1986, p. 403).

In sum, the positivistic posture of mechanistic economics has, by rejecting any and all qualitative standards, promoted quantitative growth to the overarching goal of all economic activity (Friedman 1953). The ideal of a "value-free" science has thus, perhaps contrary to the intentions of its proponents, brought economics under the sway of certain (materialistic) values (Dasgupta 2005).

2.3 Rigor or Relevance?

The aforementioned deficiencies of the mechanistic paradigm of economics reach their pinnacle in regard to the all-important domain of human agency and freedom. According to neoclassical economics, such freedom hardly exists; at least not for strictly rational economic actors, since they are viewed as tied to a calculus of utility maximization that leaves no wiggle-room for alternative decision-making. This gloomy picture is being deduced from the *homo economicus*-model that epitomizes like no other theorem the peculiarities and the flaws of the mechanistic methodology. Abstracting from reality to the extent of absurdity, economists have come up with an image of an "economic man," or *homo economicus,* that they deem inexorable (Kirchgaessner 1991). It is the mental model of a being that Thorstein Veblen in satirical depiction likens to

> a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-poised in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before. (Veblen 1898, p. 389)

Belief in mythical beings is hardly wholly benign; and one should always question the use of "models that are highly artificial, seriously oversimplified, or blatantly false" (Cartwright 2006, p. 239f.). Premised on a caricature of the human being, the model of the *homo economicus* leads us to deal with human reality in a peculiar way. When, on one hand, aspects of reality, which can be used for its transformation (e.g. moral resources), are ignored, whereas, on the other, certain elements (e.g. material incentives) are being overemphasized, then we are setting ourselves up for a "self-fulfilling prophecy" (Argyris 1973). Theoretical gaffes lead to practical blunders: Emphasizing pseudo-necessities and downplaying real freedoms, economics has long since contributed to a dangerous obfuscation about the true reach of corporate autonomy as well as responsibility.

Observations of actual markets and people—especially recent research in behavioral economics, the cognitive sciences, and neuro-economics (Fehr et al. 2005; Glimcher and Fehr 2013; Ruff and Fehr 2014)—have unanimously documented: Our factual ratiocination proceeds constantly outside the logic of the *homo economicus*-model. Human decision-making happens, so to speak, both "below" the technical calculus that the model presupposes (i.e. based on irrational and nonrational impulses) and "above" the same (i.e. driven by moral reasoning superseding instrumental rationality). In other words, the oft-lamented prognostic failures of the *homo economicus*-model are indicative of its inadequacy to capture the complexity of human economic agency (Brodbeck 2000).

Notwithstanding its negligible descriptive and prognostic merits, the *homo economicus*-model still holds an elevated status in economic pedagogy. Why? A closer look at how the *homo economicus*-model helped economists to launch the theory of "revealed preferences" (Samuelson 1938) reveals it plays a crucial role in justifying the economic *status quo*. "The capitalistic social order," Ludwig von Mises, explains, "is an economic democracy in the strictest sense of the word. In the last analysis, all decisions are dependent on the will of the people as consumers" (Mises 1931, p. 157). Consumers always buy what they like most and so inform the market what should be produced. Then, according to the mechanistic model, a "law of the market *compels* entrepreneurs and capitalists to obey the orders of consumers and to fulfill their wishes with the least expenditure of time, labor and capital goods" (Mises 1931, p. 157; my italics). Each firm must constantly enhance both the quality and quantity of its production, so corporations constantly reinvest their profits into improved technology, better logistics, and so on; and thus the race for increased efficiency drives all to maximize their profits, which, incidentally, through all-out competition, brings down the costs of production to socially optimal levels. As a consequence, managers cannot make any substantial investments into ethics, sustainability, or humanistic management—unless, that is, such measures prove directly profitable. Lest they weaken the firm's competitive position and assist more ruthless competitors, even CEOs with strong moral convictions must abstain from ethical escapades. In short, since supply must be obedient to demand and thus serve the public, nothing but the maximization of profits can be proclaimed the legitimate business of business (Friedman 1970). Or so the story goes.

To square with everyday experience, the assumption that corporations only give consumers what they want is not easy. The neoclassical lore about the forever servicing role of business is challenged by the fact that modern business produces numerous negative externalities and a host of goods of dubitable necessity; hence advertisements to stimulate demand artificially where natural interest falters. It is difficult to argue, though, that people preferred the planned obsolescence of consumer products and, besides, had no compunctions against the negative externalities (such as pollution) their fabrication entails. All proclamations of citizens against waste and pollution to the contrary, mechanistic economics hold that consumer purchases "reveal" people's preferences. Whereas ever more people from an interest in, say, more justice and sustainability rail against the irrationality of a market where often they cannot choose what they truly want, the neoclassical theory of "revealed preferences" (Samuelson 1938) defends the *status quo* by deducing from the rationality axioms of the *homo economicus*-model that people simply have to want what they end up choosing (Robinson 1962).

A more realistic view is, of course, that in contemporary industrial production the "accepted sequence" of economic control "from below," that is, by consumers, frequently yields to quite a different, "revised sequence" of events, where essential economic power is exerted rather "from above," that is, by corporations (Galbraith 1986). What sets the pace and the goals for production is often not so much the customers' choice but the organized power of suppliers to create demand and manufacture consent. The artificiality of such demand, however, lies like a curse on the neoclassical house of ideas. First, it obviously undermines the supposed justification of the market as an intelligent agency to detect already *existing* needs. Second, it undercuts the efficiency argument of market-fundamentalists; "since the demand [...] would not exist, were it not contrived, its utility or urgency, ex contrivance, is zero" (Galbraith 1958, p. 131). Third, there is an apparent paradox: In influencing the "free" purchasing decision of customers, management chips away at the very "consumer sovereignty" on which, supposedly, the moral legitimacy of its operations is premised (Crisp 1987; Lippke 1989). This threefold handicap leads us to ponder: How is such a remarkable managerial emancipation from people's the dictates of the market at all possible? How can we account for the fact that managers display such marked freedom from allegedly unbreakable economic laws instead of being determined by them?

Whereas classical economists—such as Adam Smith (see Sect. 4.3)—viewed freedom as constitutive of the behavior of both the consumer *and* the supplier, marginal theory led economists to downplay the liberties of producers. Take Alfred Marshall (1842–1924) for example. Although initially rejecting "utilitarian and hedonistic determinism," while instead building his economics on the overall premise of "economic freedom" in the pursuit of self-chosen goals (Marshall 1890, p. 17), such freedom all but disappears from Marshall's theory in regards to *corporate* decision-making. The freedom of consumers is maintained but *managerial* discretion gets crowded out by the rationality assumptions of marginal utility theory, which predict, according to Marshall, that "the alert business men" will always go for "the outer limit, or margin, of profitableness" (ibid., p. 175). The maximization of profits is, we are to believe, inevitable. In neoclassical economics, managerial freedom, it seems, can be had only at the price of rationality.

What follows? One should not even attempt to define corporate "success" other than in bottom-line gains. Managerial attempts to maintain employment in times of crisis, to make sustained contributions to communities and to ameliorate environmental pressures, are—in the mechanistic logic—to be rejected as hostile to the rationality and efficiency of business (Sundaram and Inkpen 2004).

We have, again, come full circle. After—first—reducing the scope of the discipline to quantitative parameters, management theory—second—shifted the notion of corporate success from the satisfaction of the needs of society and consumers to the maximization of shareholder interests. These interests then were counterfactually (against, e.g., the evidence of ethical investment funds and ethically oriented stockholder associations) reduced—third—from their (qualitatively) diverse objectives to nothing but the (quantifiable) pecuniary gains, in order to reject—fourth—each and every alternative economic goal so that—fifth—any and all efforts at corporate social responsibility, which are not immediately profitable, could be dismissed as both irrational and illegitimate.

Instead of continuing to hold fast to the elusive ideal of rigorous value-free science, we should rather opt for an economics with practical relevance and responsibility by concentrating on the values intrinsic to any and all scientific research (Douglas 2009). The processes and procedures of science itself are, after all, quite value-laden: From problem-selection to the choice of hypotheses and methods, values (determining what is pertinent, which criteria establish truth in an unbiased way, etc.) play an immense role in research. The "scientist qua scientist makes value judgments" (Rudner 1953). In the interest of democratic accountability, therefore, economists should not try to hide the implicit value-dimensions of science from the public but rather explicate them so that they can be openly debated and criticized (Douglas 2009).

The nexus between theoretical and practical realizations can also work in favor of moral responsibility, for example, when the academic community moves toward an explicit endorsement of a more humanistic management education. As Alfred Marshall once noted, the modern manager has a strong tendency to "shirking troublesome initiative" since…

> the trouble of a new experiment will come largely on him. If it fails, he will have to bear much of the blame; and if it succeeds, only a very small part of the consequent gain will accrue to him. So the path of least resistance, of greatest comfort, and least risk to himself is generally that of not striving

> for improvement himself, and of finding plausible excuses for not trying an improvement suggested by others, until its success is established beyond question. (Marshall 1897, p. 131)

Hope lies, Marshall continues, in the fact that in lockstep with improved managerial education the work of the manager is increasingly "likely to be judged by a critical and appreciative audience who know the technical difficulties of the problem" (ibid., p. 132). The academic community is one such audience to influence corporate decision-makers by appreciative or corrective feedback. In the present quest for more social and ecological sustainability, we should not underrate the practical importance of theoretical work done in academe. By normative guidance and critique as well as through the development and dissemination of new auditing, accounting, and management tools that integrate social and environmental sustainability criteria the cause of humanistic management can be advanced (see Sects. 4.3 and 5.3).

2.4 Lessons Learned

Against conventional economic wisdom, we assert: *The decisional freedom of management is part of the solution to the problem it is supposed to be.* Far from being a mere resultant of corporate pay schemes, managerial decisions result from the systemic need for complexity-adequate supervision and a strategic direction of corporate affairs. When hiring a manager, firms do look not for a humanoid abacus but for a "decision-maker." Making decisions, though, is, unlike the quantitative computation of profit-functions, a qualitative act of judgment. That is to say, the most common practices of management presuppose the very freedom economics has so long disregarded. And with said freedom comes the obligation to its responsible use. The deconstruction of the counterfactual premises of neoclassical economics lets us appreciate that there is, in fact, considerable room for ethics not only *outside* but also *inside* the economy (Brodbeck 2000). To this intrinsic role of economic ethics we must direct our attention.

Forward-looking business schools have long since intuited this and stopped donning the cognitive straightjacket of mechanistic economics. Instead, using case studies and scenario-techniques, many a business school opts today for methodologies that implicitly pay homage to the open-ended nature of human reality (Harrison 1995). Former apologetics of the *homo economicus* and promoters of the mechanistic worldview of principal/agent-theory such as Michael Jensen, erstwhile president of the American Finance Association, are now advocates of an altogether different management education, centered not on the prognosis of behavior from a third-person perspective but on its moral cultivation in terms of "integrity" and "authenticity" from the first-person angle (Jensen 2009; Erhard et al. 2010). This new direction toward human freedom and its moral responsibility correctly emphasizes the cultural malleability of economic affairs.

The turn from mechanistic necessity to human freedom cannot remain implicit but must be made explicit in order to realize its full potentials. People, surely, are more likely to take on responsibility, if their freedom to do so is not only intimated but articulated. Making freedom visible is an act of both intellectual and practical liberation. For once managerial freedom is realized theoretically, its proper practical realization can be investigated and taught. The economy is not a normatively neutral field, governed by technical rationality alone. Consequently, we ought to recast economics as a self-reflective *social* science and emphasize the importance of qualitative aspects, critical self-evaluations, and moral values for the discipline (Boulding 1969). Through acknowledging ethics as one of the many drivers of economic behavior (of customers, workers, managers, and regulators), moral motives can, just as well as selfish interests, be investigated in their constitutive contribution to collective action and corporate success. An economics education oriented at the actual human condition, on real human beings and on their factual relations, will naturally bring students to view ethics as something that, far from being at odds with the rest of their curriculum, constitutes one of its very foundations.

Quantitative studies are an important part of this endeavor; and the recent advances in behavioral economics, empirical game theory, and neuro-economics give reason to hope that a more integrative approach to economics will indeed lead not to less but more precision in the scientific exploration of its subject. But this, by itself, is not enough. Also, a new philosophy of management is overdue; a philosophy of responsible freedom, which teaches managers how to harness peoples' moral commitments for the construction of businesses that create financial and social value at the same time. Instead of deducing unrealistic theories from counterfactual assumptions about a hypothetical *homo economicus,* economics must observe the real, socially embedded, and morally oriented *conditio humana*.

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CHAPTER 3

The Teleological Paradigm

Abstract This chapter makes the case that economics today can benefit from the long-standing tradition of ethical thought. A first major milestone of economic ethics was reached with the "teleological paradigm" that also dominated much of classical economics. From Aristotle via Thomas Aquinas, up to and including Adam Smith, there was a consensus that both economic theory and practice needed to be *legitimated* as well as *limited* by a certain overarching goal (Greek: *telos*) such as the "common good." This chapter explores in particular how teleological thinking can orient economic decision-making *quantitatively* (against *excess*, as in the philosophy of Aristotle), *qualitatively* (in pursuit of *justice*, as in the ethics of Thomas Aquinas), and in regard to the question as to how ethical business strategies can be successfully developed (based on *empathy/sympathy*, as in the economics of Adam Smith).

Keywords Common good • Virtue • Moral philosophy • Metaphysics • Qualitative economics

For over 2000 years, from the beginnings of recorded economic thought up to and including Adam Smith (1723–1790), ethics was central to economics. Moreover, ethics did not only define *negatively* what economic agents were *not* to do. Rather moral theories provided *positive* orientation on what businesses and economies *ought* to pursue; the role of ethics was

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strategic. Moral goals defined the "objective function" of business and so both legitimated and limited economy agency. It is to this rich concept of ethical orientation that we must return to see how moral deliberations can play a productive role in business and in order to reorient economic affairs to human values.

3.1 Aristotle against Excess

In recent years, an increasing number of scholars in business ethics and management studies have rediscovered Aristotle (385–322 BCE). His theory of virtue and wisdom is believed to provide a more promising framework for the pursuit of well-being, wealth, and the welfare of the larger human community than modern economic philosophies. In our days, where the ceaseless pursuit of material wealth has lost much of its erstwhile lure, Aristotle's much broader concept of what constitutes economic success is gaining adherents again. While Aristotle does not dismiss the importance of material goods for living well, his notion of true wealth and of real success in business and economics transcends quantitative parameters (Wijnberg 2000). One needs qualitative standards for such assessments, gleaned from moral philosophy, in order to deal adequately with the heterogeneous and often also incommensurable nature of our values (Nussbaum 1990, p. 59).

Aristotle links individual and institutional, personal and sociopolitical welfare to a concept of "practical wisdom" (*phronesis*) balancing the variegated aspirations of humanity. The pursuit of economic welfare must, therefore, not be pitted against other vital concerns of the human community.

Before launching into his theory, though, let us address an objection often fielded against his theories: Aristotle has often been dismissed by modern economists because he did not observe certain features of the economy, which, to a modern scholar, seem essential (Schumpeter 1954). Indeed, Aristotle has little to say on marginal utility theory and equilibrium prices (Solomon 2004, p. 1023). This, though, may well have to do with the fact that, strictly speaking, markets were not so dominant a phenomenon in his time as they are in ours. Much of the economy was in the hands of a very few grand merchants, landowners, and government officials. For example, at his time, half the grain coming into Athens was controlled by a single importer (Demosthenes (1930, XX, pp. 31–32)). The impact of specific individuals and institutions on the overall allocation of goods was thus enormous and would consequently impact the price-building processes of commercial transactions. Hence by pure observation one could hardly hit upon the generalities (such as Gossen's second law) of modern marginal economics (Lowry 1987, p. 188).

Instead of focusing on the abstract side of *allocation* through commerce, Aristotle concentrated more on the very concrete specificities of *distributive* action displayed by the then predominant economic power players and administrators (Soudek 1952, p. 57). Theories to assess the impact of power on distributional questions are, however, political rather than strictly economic. No wonder then that Aristotle discusses economic and business questions as a subordinate subject within his treatise on politics (Koslowski 1993, pp. 51–53). As a result, Aristotle did not form the notion that markets could, or should, by themselves reach equilibriums. His economic theory is but a part of his political theory, which in turn is subordinated to his ethics. Some modern economists criticized the fact that Aristotle, as a consequence, never developed an autarchic discipline of economics. Yet, one can also hold this very much in his favor: If, in practice, the *economy* is deeply embedded in society, maybe, as a theory, *economics* ought to be embedded in social philosophy, too?

At any rate, in Aristotle's conceptions of sound economic thinking and activity, social concerns take precedence over economic or monetary concerns. Clearly, though, Aristotle was not blind to the intrinsic logic of barter and trade. Aristotle, for instance, was fully aware that if one's only goal was to make as much money as possible, a reasonably clear-cut code of conduct could analytically be derived from this premise. He felt, however, that to outline a theory of such behavior was precisely what economics was *not* to be about (Aristotle 2007, 1259a, pp. 33–34). The rules of sheer moneymaking (*chrematistike*), he simply found too "tiresome to dwell upon (…) at greater length" (Aristotle 2007, 1258b, p. 34). His predominant theoretical interest, instead, was with responsible household management (Aristotle 2007, 1256b, pp. 40–41). For this is what economics (*oikonomia*) quite literally means, the moral laws (*nomoi*) that ought to govern households (*oikoi*). In short, the way in which Aristotle thought of economic affairs prevents the modern separation of economics from ethics.

Aristotle's ethics rests upon a (*teleological*) theory about life according to which each living entity strives to a certain goal (*telos*) to. Plants, for instance, need specific environments (soil, water, sun,) but will, given these conditions, flourish. Therein they realize their genetic program or, as Aristotle would describe it, their *telos*, their destination (Aristotle 2001, 641b, pp. 34–39). Human beings and organizations, says Aristotle, strive toward such final ends, too. Everything human, however, does not simply follow a predetermined path but relies on its course upon human freedom and agency. Flourishing is therefore not guaranteed. Outward conditions can hamper human development, of course, but failure in human affairs can also come from turpitude and vice. For successful self-management, a (*teleological*) concept of what constitutes true well-being (as the *end* of human life) and of what brings it about (as *means*) is needed. This very concept Aristotle wanted to provide with his moral philosophy.

Aristotle begins his main moral work, the *Nicomachean Ethics,* by declaring: "Every art and every inquiry, and similarly every action and pursuit, is thought to aim at some good; and for this reason the good has rightly been declared to be that at which all things aim" (Aristotle 1985, 1094a, pp. 1–2). Compare this now to the statement that introduces his treatise on politics: "Every state is a community of some kind, and every community is established with a view to some good; for mankind always act in order to obtain that which they think good" (Aristotle 2007, 1242a, pp. 1–2). Immediately it becomes clear that in the pursuit of the human good, ethics and politics are deeply conjoined, which elevates the political science (containing his theory of economics) to a position of the highest importance:

> In all sciences and arts the end is a good; and the greatest good and in the highest degree a good in the most authoritative of all—this is the political science of which the good is justice, in other words, the common interest. (Aristotle 2007, 1282b, pp. 15–19)

Since economics forms part and parcel of said political science, the proper management of economic affairs is central to Aristotle's overall ethical program (Dyck and Kleysen 2001, p. 562).

Aristotle develops accordingly an ethical conception of what constitutes economic welfare, which goals business organizations should pursue, and how to measure economic success (Meikle 1994). Most goods, Aristotle notes, are valued relatively, not absolutely, and instrumentally, not intrinsically; they are esteemed because they serve a certain function, that is, they are being employed as means to other ends and goods. So, Aristotle concludes:

> If, then, there is some end of the things we do, which we desire for its own sake (everything else being desired for the sake of this), and if we do not

> choose everything for the sake of something else (for at that rate the process would go on to infinity, so that our desire would be empty and vain), clearly this must be the good and the chief good. (Aristotle 1985, 1094a, pp. 17–23)

What is this ultimate goal of human life? According to Aristotle, one thing is clear from the beginning: "wealth is evidently not the good we are seeking" (Aristotle 1985, 1096a, p. 6). The answer instead has to be gleaned from the natural faculties of human beings and the natural objectives they seem to be directed to (Aristotle 1985, 1097b, p. 34). For example, the quest for (goods such as) food, shelter, defense, and procreation, we share with animals. In addition, human beings seek communication, education, and cultivation (Aristotle 2007, 1253a, pp. 10–39). Even these higher goods, though, are merely functional; they are not necessarily sufficient in themselves, and neither are they sought after universally.

Happiness, however, is universally pursued, and, moreover, it is sought for its own sake. Happiness alone can thus be declared the ultimate good of human life (Aristotle 1985, 1097a, pp. 28–37). But what constitutes happiness? Aristotle's term for happiness (*eudaimonia)* connotes a "well-ordered" state of affairs (from Greek: *eu* = good, *daimon* = spirit). Aristotle does not commend *subjective states* of euphoria, experienced passively through the senses, or extol hedonistic lifestyles. Rather *eudaimonia* describes an *objective state* of well-being, to be attained by reasonable conduct (Aristotle 1985, 1098a, pp. 3–8). Individuals are "happy" (well-ordered), when they harmonize their outer and inner world (Aristotle 1985, 1097b, pp. 15–16). Not fortune or fortunes, but a communal and virtuous lifestyle makes for such happiness, holds Aristotle.

From experience one must develop an understanding of different customs and mores (Aristotle 1985, 1142a, p. 18) so as to learn, gradually, to judge one's affairs wisely. The good life can neither be defined nor attained in abstraction from the respective communities we live in (Wijnberg 2000, p. 334). We need the role model of concrete persons (*phronimoi;* from *phronesis* = practical wisdom), who excel in judgment and wisdom (Koslowski 1993, p. 26). By observing how they master life we gain the requisite orientation and by imitating them we develop our character (Aristotle 1985, 1140a, 24–1145a, p. 13). So, it is of utmost importance that communities and organizations follow good customs and offer decent role models, since otherwise—instead of teaching us virtue and sound judgment—life will be a school of vice and folly.

Just as people, organizations mimic exemplary ideals and build out specific characteristics into a specific "corporate culture." Through the Aristotelian lens, we thus see corporations for what, in essence, they are: social institutions, where people work with people for people, that is, in ways that are, naturally, morally relevant. To govern oneself or a firm are not wholly disparate endeavors, therefore. Either requires moral reflection that continuously reevaluates whether the chosen aspirational role models still reflect the true values and best interests of society. Only by working out a shared understanding of what constitutes a good and dignified life can people form an adequate notion of the necessities of life, and hence what to demand from the economy (Solomon 2004, p. 1027). In order that a community can properly assume its educative function, reflective deliberation and continuous moral discussion are vital; hence the importance of philosophy for life: through ethical discourse and reflective orientation, philosophy promotes true virtues and sustainable happiness (Aristotle 1985, 1144a, p. 4).

Most of our pursuits benefit from social cooperation. Community with others certainly compensates for the deficiencies of each single individual, but, what is more, it also provides us with the wherewithal for personal self-perfection (Aristotle 2007, 1278b, pp. 18–24). This theory of community-oriented living can also inform the management of today's corporations, since these too are communities organized by and around common purposes (Wijnberg 2000, p. 334). Obviously, important differences between a modern, shareholder-oriented corporation and ancient households bar treating them wholly alike. Yet, as social organizations, they also feature certain structural commonalities that allow the transfer of insights about successful management of one to the other, especially with a view to the question of how (not) to acquire goods and put them to use.

For instance, according to Aristotle, there can be too much or too little of nearly everything; too much or too little sunshine for a plant, too much or too little food for an animal, and also, there can be too much or too little wealth for a person (Aristotle 1981, 1231b, p. 31). For some, the idea of "too much wealth" may seem odd. Who would reject having more choices rather than fewer? And so, who would not prefer more rather than less from an all-purpose means such as money? Isn't amassing property tantamount to stocking up freedom and well-being? Aristotle teaches caution against these assumptions.

In all realms of life, Aristotle advocates moderation and measure, defining virtue as the rational pursuit of a golden mean between harmful extremes (Aristotle 1985, 1094b, pp. 14–15). Excess, in other words, is bad in itself. Wealth, to repeat, is for Aristotle not an end in itself but a means to the good life: a subordinate end (Aristotle 1985, 1096a, p. 6). As a functional good, wealth "consists in using things rather than in owning them; it is really the activity—that is, the use—of property that constitutes wealth" (Aristotle 1994 1361a, p. 23). Consequently, wealth is to be evaluated by how it facilitates the well-ordered or happy life. Where it no longer facilitates this goal, wealth ceases to be a good.

Moreover, wealth cannot be maximized, all else being equal. The pursuit of wealth changes the social conditions of life. In modern parlance, there are opportunity costs to its quest. Other endeavors are not undertaken; other—worthier—ends might not be pursued (Lowry 1987, p. 234). Such higher ends are, to Aristotle, the striving to perfect oneself internally, and externally, the active participation in one's political community. Whether an increase in wealth is beneficial is therefore never to be answered in the abstract, but always by a concrete analysis of the foregone alternative uses of one's time and energy. How much is enough, and how much would be too much, for the good life (Bernstein et al. 2000; Hawken et al. 2000)? Aristotle suggests the rule-of-thumb that everyone should "have so much property as will enable him to live not only temperately but liberally; if the two are parted, liberality will combine with luxury; temperance will be associated with toil" (Aristotle 2007, 1265a, pp. 29–35).

To achieve the adequate balance of wealth, government has to intervene in the economy. Aristotle calls on the lawgiver to moderate and mediate, because, in his terse statement, "The equalization of property is one of the things that tend to prevent the citizens from quarrelling" (Aristotle 2007, 1267a, pp. 37–38). Although Aristotle does not dwell much on the thorny technical problems of the issue, such as questions of the just measure and proportion of taxation, he makes clear that he means to facilitate fairness in opportunity through distributing and redistributing goods to those who have the most talent to use them (Aristotle 2007, 1282b, 35–1283a, p. 2). No matter how well governed a given political community is, laws by themselves cannot make the individuals and the households "good" without their active contributions. A functioning political community relies, importantly, also on *self-moderation* on the part of the individuals and the households.

Aristotle assumes there are certain satisfaction points for each specific economic unit. To strive beyond those in pursuit of wealth documents an unwholesome desire of wanting ever more (*pleonexia,* literally = the "more"-nexus), an addiction dangerous to the concerned individuals just as much as for the community at large (Aristotle 1985, 1129b, 9–1130a, p. 17). Greedy people end up turning "every quality or art into a means of getting wealth" and thus corrupting the standards of decent workmanship (Aristotle 2007, 1257b, 31–1258a, p. 18). A limitless pursuit of riches undermines society as a whole (Aristotle 2007, 1323a, 35–1323b, p. 10). Excessive riches contribute to the disenfranchisement of the citizen from their community. The poor become too destitute to participate in political functions, while the rich in turn have the opportunity to opt out of their communal duties (Putnam 2000; Kasser and Ahuvia 2002). It is from this angle that wealth in moderation seems best for all "for in that condition of life men are most ready to follow rational principle" (Aristotle 2007, 1295b, a, pp. 5–6). From this angle, we can best understand his dictum that property, while generally private, should in its use "be in a certain sense common" (Aristotle 2007, 1263a, p. 25), since society—as the enabler and guarantor of our possessions—has a stake in it.

By reworking Aristotle's thoughts and ideas for today, we realize that he has more to say about business ethics, corporate self-regulation, and corporate governance than may at first appear to be the case. The household is not an economic unit first and a political community second; it is an integral part of the *polis*. On that basis, a corporation does not appear, first and foremost, as a profit-driven machine that, perhaps, also has some social responsibilities. Rather, firms are responsible to society from the outset.

Aristotle's distinction between two different forms of moneymaking (*chrematistike*) can give us further orientation on how firms ought to manage their assets. For Aristotle, there is namely one ("natural") form of moneymaking that is integrated into a purpose-bound and socially embedded household-economy (*oikonomia*), and another ("unnatural" one) that is torn apart from this context and has turned into a boundless pursuit of profit (Aristotle 2007, 1256b, pp. 27–34). Aristotle knew, of course, that when looking at certain business transactions one cannot always easily make out whether they are a function of the "natural" or the "unnatural" form of *chrematistike*, that is, of a socially "embedded" or a "dis-embedded" pursuit of wealth.

> The source of the confusion is the near connection between the two kinds of wealth-getting; in either, the instrument is the same, although the use is different, and so they pass into one another; for each is a use of the same property, but with a difference: accumulation is the end in the one case, but

> there is a further end in the other. Hence some persons are led to believe that getting wealth is the object of household management, and the whole idea of their lives is that they ought to increase their money without limit. … (Aristotle 2007, 1257b, 31–1258a, p. 5)

Since from the outside we cannot always assess correctly the respective end a given transaction serves, individual and corporate *self-regulation* becomes all the more important (Donaldson and Davis 1991; Block 1993; Davis et al. 1997). Legislation alone is futile when decision-makers on all other levels do not reign in their *chrematistic* impulses in favor of genuinely *oikonomic* goals. Hence much hinges on the internalization of the distinction between *oikonomia* and *chrematistike* by business people and the makers of economic policy.

With this distinction between two polar-contrary orientations of economic pursuits, Aristotle provides a very helpful tool to think through contemporary dilemmas in the field of business ethics, corporate social responsibility, management theory, and social entrepreneurship. Aristotle's framework allows, for instance, to overcome the unproductive bifurcation between selfish and altruistic transactions in business (Dyck and Kleysen 2001, p. 563). By their very nature, business organizations are committed to the interest of their members while servicing the greater community which enables their activities (Solomon 2004, pp. 1024–1028). The postulate for ethical conduct in business, consequently, neither entails undue self-sacrifice, nor does it require ordinary men to behave like saints. It only demands to realize what a business, in fact, is, that is, a social institution, where behavior is modeled, customs are shaped, and people engage in forms of conduct with moral and political significance (Wijnberg 2000, p. 340). To use Aristotle's perspective in the business context is "a way of understanding or (re)conceiving what management is" rather than "a way to pass moral judgment on it" (Dyck and Kleysen 2001, p. 565).

Obviously Aristotle's teachings stand in stark contrast to the tenets of scholars in economics and management who posit that businesses and their managers must and should adhere to the maximization of profits alone, having a "fiduciary duty" which all but *precludes* environmental, social, or governance considerations in institutional investment decisions (Freshfields et al. 2006). With Aristotle, however, one would contend that ethics appears as relevant in the business context as it is in any other area of life. Ethics relates to economic agency more like a lodestar than a lighthouse. Whereas the latter notifies particular places where a ship might run aground, the former orients the navigator to the general direction of the voyage. Thus Aristotle's perspective allows reframing ethics as a natural focal point of corporate strategy and economic policy.

3.2 Aquinas on Justice

The medieval theologian Thomas Aquinas (1225–1274) expanded upon Aristotle's ethics and *teleology*. Thomas, however, connected Aristotle's theory of virtuous living and well-being with the *idea of justice* and held that humans, unlike animals, needed to make explicit the implicit *laws* that govern their lives in order to thrive and flourish (Westberg 1994). His notion that certain aspects of justice are genuinely universal and thus make valid claims on any and all human beings proved highly influential. Thomas thought in order to understand and accept the precepts of justice one need not be a Christian. While the Bible contains transcendent concepts that do not appeal to everyone, in the most essential questions of human conduct, according to Thomas, the moral precepts of scripture and secular reason converge. An example for such an overlap is the "Golden Rule," to do unto others as one would want to be done to. While certainly transmitted theologically (Mt. 7:12), this rule is also evident to those who proceed through sound philosophizing to an understanding of human nature (S. th. I-II, 94, 4 ad 1). Obedience to this rule is then something that can be demanded from anyone, anywhere, and at any time. Taken up in the early sixteenth century by the renowned *School of Salamanca*, these doctrines became, their *theological* origin notwithstanding, a precursor to later, *secular* declarations of human rights.

For Thomas, the simple mandate "to do good and to avoid evil" is a self-evident ethical principle, which "can in no wise be blotted out from men's hearts" (S. th. I-II, 94, 6). On this basis, concrete moral precepts can be inferred directly from the principle that "one should do harm to no one" (S. th. I-II, 95, 2), for example, a command, "such as 'one must not kill'" (ibid.), explains Thomas, or the rule to prevent avoidable harm. These rules, concluded Thomas, are valid across time and culture. No individuals, businesses, or governments are exempt from them. Thomas also translates this principle into the command to promote (and to abstain from hindering) the realization of the natural goods of human life (preservation, procreation, education, etc.). The fundamental imperative to advance the natural goods of human life helps in generating a context-invariant body of moral norms, binding all humans, at all times and in all places, to life-conducive policies (Williams 1993). Business actors just as much as governmental agencies or individuals are called upon to meet standards whose global reach Thomas defends by stating that the virtuous conduct they demand derives from basic insights of human reason into the nature of the human good (S. th. I-II, 94, 3).

Since Thomas holds the very principles of morals (such as the *Golden Rule*, and the "no harm"-principle) to be universally intelligible, he also states that no human being is ever wholly without an innate awareness of the good. Even those, who commit atrocious sins, cannot thereby divest themselves of their ethical nature as such, or of their potential to redirect their lives to the good (S. th. I-II, 85, 2). While the moral worth of individuals, of course, changes with their actual actions and convictions, this fundamental capacity to moral reform highlights the *dignity* of each person as a human being, which remains untarnished by personal conduct (Zagzebski 2001). Each human being, therefore, is always—in business transactions just as in all other aspects of life—to be treated with respect for this very dignity (Melé 2009a).

For the formulation of ethics in the age of globalization, this stricture, too, is of eminent importance, since it designates an unconditional respect for all human beings. Their essential status as subjects of dignity is not conditioned on worldly achievements; humans neither have to earn their right to a dignified treatment, nor can they forfeit it. One cannot legitimately reduce a human being to his or her economic function on behalf of collective interests, either. Human subjects should therefore never be objectified into mere "human resources" or sheer "human capital"—that is, the immensely practical and immensely important outcome of this philosophical-theological argument.

The normative pivot of all these moral deliberations is the idea of justice. For unlike virtues like wisdom and temperance, which may be cultivated in solitude (S. th. II-II, 57, 1), "what is particular to justice among other virtues is that it orders a human being in those affairs which concern another" (ibid.). Justice requires an equitable treatment of the other (S. th. II-II, 57, 1) according to some universally recognizable standards of fairness (S. th. II-II, 57, 1 ad 2). But justice, as "a habit according to which one renders with a constant and perpetual will what is right to anyone" (S. th. II-II, 58, 1) *is not limited to the legal realm alone*, but demands that *all* actions by individual and collective agents be characterized by the said spirit of fair treatment. Justice, as a virtue, demands from people to render to others that which is truly theirs (S. th. II-II, 58, 11), and that requires an empathetic recognition and a sympathetic acknowledgment of the needs of others.

Thomas makes an important step toward a contemporary conception of business ethics as a dimension of responsible conduct *beyond what the law requires* (Melé 2009b). Today, such supererogatory (virtuous) commitments of business are more important than ever. While, in the past, nation-states could—to some extent—rein in negative externalities of their national economies, today's globalized economy is under no such global political supervision. Global business is not curbed by a global government, nor can we expect, in the foreseeable future, a system of decentralized global governance with sufficient sanctioning powers to enforce globally normative mandates for business. For this reason alone, business ethics cannot be entrusted solely to the law (Solomon 1994). We live in an era, where institutional solutions to various "corporate prisoners' dilemmas" and to the various downward spirals of global competition ("race to the bottom") have to rely increasingly on corporate coalitions of the willing. Not incidentally, the debate over the concept and the implications of Corporate Social Responsibility has gained force in steady proportion with the globalization of business. Justice, in short, is a timely subject for business, especially, since it always *allows* and on occasion—for example, given state failure—might *require* corporations to act as subsidiary facilitators of justice (Aßländer 2011).

Thomas knew, of course, that what constitutes virtuous behavior varies according to circumstance, and to some extent he also endorsed that moral customs varied from society to society (S. th. I-II, 95, 3) and from time to time (S. th. I-II, 96, 1). Nevertheless, ethical diversity also meets clear "natural" limits. Thomas points to the acceptance of thievery by some Germanic tribes, for instance, which, in his eyes, is not a legitimate cultural specification of the institute of property, but must rather be attributed to the depraved customs and corrupt habits of these Germans (S. th. I-II, 94, 4–6). His reasoning is that, since it rests on a failure to infer the right consequence (*do not steal*) from a universal principle (*do not harm*) such a custom cannot be accepted from a global vantage point (S. th. I-II, 94, 6 ad 1). Similar judgments could be made in regard to harsh labor practices in developing countries that violate the physical integrity of employees and make it impossible for the individual workers to flourish (Varacalli 1992).

This goes to show that not all variants introduced by circumstance are morally acceptable (Hoffman 2011). The explication of universal standards of justice in and of itself curtails the claims to validity from relativists who posture as advocates of cultural specificity. For example, the enlisting of certain regional values in defense of violations of basic human rights would thus have to be rejected as illegitimate. No firm should ever abide by patently unjust laws, even though this may seem necessary to do business in certain countries (Dann and Haddow 2008). A cross-cultural insistence on human rights, for instance, cannot be dismissed as an illegitimate infringement on cultural sovereignty rights (Jacobsen and Bruun 2000); rather, any practice that directly contravenes universal prescriptions can justly be banned (S. th. I-II, 95, 2). A clear stance in favor of the United Nations Declarations of Human Rights and its consistent application in the economic sphere is but the consequent translation of this ethics into our contemporary life-world (Cahill 1980; Villa-Vicencio 1999). Firms as well as individuals and states ought to adhere to the universal principles of ethics, an insight currently also reflected and expressed by the signatory companies to the United Nations Global Compact (Melé 2009a; Williams 2004).

In order to have the idea of justice reign supreme, Aquinas teaches, we need to subordinate the economic sphere entirely under the mandates of ethics. In line with early Christian skepticism about the value of material possessions (Mt. 13, 44–46, Apg. 4, 32–37, 1, Tim. 6, 17 f.) and his own conviction about the ultimate superiority of spiritual goods (S. th. II-II, 118 ad 5), Thomas reiterates Aristotle's tenet that wealth is not an end in itself, but merely an instrument (*SCG* III, 30, 2). Thomas regards neither wealth as necessarily a good, nor poverty as necessarily an evil. It depends upon the role poverty and wealth play in human life. If riches make a person anxious or immoral, then, it is surely better that poverty frees the person from these afflictions. One should, however, not go so far as to view poverty as a good in itself; it, too, is only of instrumental value and praiseworthy "only in so far as it liberates [one] from those things by which a human being is prevented from intending spiritual things […]. And this is common to all external things that they are good to the extent that they lead to virtue, but not in themselves" (*SCG* III, 133, 4).

Thomas supports possessions in keeping with the social position of individuals (*suam conditionem*, S. th. II-II, 118, 1), but warns that whenever "the practice of virtue is hindered by them, they are not to be numbered among goods, but among evils" (*SCG* III, 133, 1). Thomas's repeated emphasis on the merely *functional* nature of possessions is of central importance to his socioeconomic philosophy overall, since it inspires concepts of property and profit that, in contradistinction to modern (e.g. libertarian) notions, are merely conveying *relative*, yet never *absolute*, entitlements. Goods whose value is *contingent* and *conditioned* cannot express human nature; there is no *unconditional* human right to their possession. Material wealth is acceptable when it promotes individual virtue and the common good. Business is legitimate when in keeping with its wider social purpose.

In Thomas's view, the use of the earth and its goods has been given to humanity in common (S. th. II-II, 66, 1). A form of property that excludes the use of others, that is, "private" property (from *privare*=to deprive), does *prima facie* not fall within the purview of said stewardship, and is thus always in need of justification. For Thomas, "the division of possessions is not according to the natural law, but rather arose from human agreement which pertains to positive law" (S. th. II-II, 66, 2 ad 1). And since private property is *not* an institution of natural law; it cannot be defended *absolutely* (S. th. II-II, 57, 3). Rather, as a social construct, its justification always remains relative to its function, that is, to realize certain benign services in, and for, a given community. In legitimizing private ownership against a standard of initial equality, Thomas simultaneously regulates and curbs the acceptable *manifestations* of private properties through the very societal functions that justify the *institution* of private property overall.

> First because every man is more careful to procure what is for himself alone than that which is common to many or to all: since each one would shirk the labor and leave to another that which concerns the community, as happens where there is a great number of servants. Secondly, because human affairs are conducted in more orderly fashion if each man is charged with taking care of some particular thing himself, whereas there would be confusion if everyone had to look after any one thing indeterminately. Thirdly, because a more peaceful state is ensured to man if each one is contented with his own. Hence it is to be observed that quarrels arise more frequently where there is no division of the things possessed. (S. th. II-II, 66, 2)

Far from giving *unconditional* support for the privatization of earthly goods, this *conditional* justification qualifies and limits the individual right to exclusive property. Thomas argues accordingly that one should "possess external things, not as one's own, but as common, so that one is ready to share them with others in their need" (S. th. II-II, 66, 2). While not demanding "that all things should be possessed in common and that nothing should be possessed as one's own," this passage does indeed mean that society can and should define the proper boundaries of private possessions in terms of both their quantity and quality. There is, in short, no right to individual or corporate enrichment at the cost of the common good.

A glance at Thomas's theory of almsgiving underlines this point. Thomas views almsgiving as not merely an ethical counsel but rather as a strict moral precept (S. th. II-II, 32, 5), since it is "necessary to virtue, namely, in so far as it is demanded by right reason." For moral reason demands, Thomas explains, that any surplus we own beyond what we truly need for ourselves and for those in our charge, we are to give to the needy. While "it is not possible for one individual to relieve the needs of all," we *are* bound to relieve all "those who could not be assisted if we not did assist them" (ibid.); and there is no reason why this precept for all "those who have riches" (*SCG* III, 135) should not hold as well for corporate donations.

From a moral perspective, therefore, *all* our possessions are generally constrained by "the right of all persons to subsist upon the bounty of the earth" (Ryan 1942, p. 245). Since the law accepts, however, the presence of many evils and the absence of numerous goods on behalf of the higher good of human freedom which cannot otherwise be sustained (S. th. I-II, 96, 2), the moral precept of almsgiving does not directly translate into legal strictures of forced income redistribution. Nevertheless, Thomas explicitly denies (the central tenet of today's neoliberal doctrines) that legal provisions for the institution of private property can be used against the right of those in need. "Inferior things," he reiterates without any room for equivocation, are ordered to assisting those in need. As a consequence, the obligation to assist those in need by such things is not prevented by the division and appropriation of things that proceed from human law. And so things which some have in abundance should be used according to natural law to assist the poor (S. th. II-II, 66, 7). Human law, bound by the principle of justice for its legitimacy (S. th. I-II, 95, 2), must therefore not accept the superabundance of some in the face of the need of others (Schumacher 1949).

In his comments on commercial relations, Thomas generally adopts and builds upon Aristotle's distinction between *oikonomia* and *chrematistike* (Dierksmeier and Pirson 2009). And, like all medieval authors Thomas also accepts Aristotle's censure of greed. But Thomas provides a more positive assessment of commercial exchange than "the Philosopher." In Thomas's eyes, exchange relationships, while often leading *subjectively* to a "certain debasement" of the involved tradesperson (S. th. II-II, 77, 4), are viewed *objectively* as societal transactions without intrinsic demerits: their moral value is—like that of private wealth—wholly functional. Whether commercial transactions are *condemned* or *commended* depends solely on what they accomplish for society. When they benefit all involved parties and achieve a better allocation of goods overall, they gain Thomas's approval (ibid.).

Merchants, for instance, are allowed to seek not only surplus returns for their labor, costs, and risks (i.e. as reimbursement for their transport and insurance outlays), but also moderate gains resulting from the fluctuations of general market prices and particular customer demand (ibid.). The reason behind this view is that for Thomas the "just price" that shall be observed in trade is not a *quantitative* fixture but a regulative idea of a *qualitative* nature: The notion of the "just price" eliminates price-gouging and thus the exploitation of dependencies and need, and so forth, without demanding static prices fixed to an unalterable economic equilibrium (S. th. II-II, 77, 1). For the later development of the feudal and mercantile economies into the capitalistic system, this slight deviation from Aristotle is of highest importance, and thus the *quaestiones* 77 and 78 in Thomas's *Secundae Secunda* that have produced vastly diverging modern interpretations.

On the surface, Thomas seems simply to follow the many biblical injunctions against usury (Exod. 22, 25, Levit., 25, 37, Deut. 15, 6; 23, 19, Ps. 14, 5., Lk. 6, 34), and to reiterate Aristotle's charge against the "sterile" nature of monetary transactions in favor of the "fruitful" dimensions of commodity production and exchange. On second inspection, however, we see that Thomas's approach is subtler. On the one hand, Thomas does value labor over exchange and, in turn, commodity exchange over monetary investment when it comes to assessing the ethicality of revenue claims. In short, the healthy preference of "sweat equity" over capital returns that generally characterizes medieval philosophy also permeates Thomas's deliberations (*Contra impugnantes*, VI, ad 12). On the other hand, that does not mean Thomas would grant a legitimate role in generating income only to labor, and never to capital.

While Thomas censures money-lending as "usury" with many of the same arguments we find in Aristotle and in the Bible (S. th. II-II, 78, 1) and also opposes the notion of interest as a legitimate reimbursement for opportunity costs (S. th. II-II, 78, 2, ad 1), we must not conclude that Thomas rejected all income without labor and would hence have dismissed as illegitimate today's capitalistic economy wholesale (cf. Orel 1930). Namely, Thomas does allow for gains from rent and also from specific investments (*per modum societatis*) in commercial enterprises (S. th. II-II, 78, 2). Why these exceptions in favor of capital-based income? In either form, the invested money has served a socially productive function—for example, building up real estate in the former, outfitting a merchant voyage in the latter—that is, the money has been used as productive capital, realizing social utilities that, without the expected profit, might probably have remained unrealized. This is where the crucial difference lies. Thomas writes an economic ethics that does not tie income necessarily to labor, but rather to the social utility of the revenue-generating activity or entitlement. Therein lies an important—then observed, today neglected—*regulative ideal* of all business transactions: profits are legitimate only in a *quantitative* moderation that results from respecting the *qualitative* confines that protect the welfare of all stakeholders.

While Thomas's economic ethics cannot always directly be applied to our contemporary business world, its underlying principles may well serve as guideposts on a way to a more humane and balanced economy. Namely his use of a counterfactual value theory (which limits the quantitative pursuit of profit by qualitative concerns for human well-being) renders his theory pertinent to our time. Insofar as the business practices of his days have changed, his instructions may have to be adapted to meet the altered realities of the present. Yet in many cases, the customs of his time and our contemporary situation are sufficiently similar to allow for the inference of ethical judgments.

For example, the following moral dilemma of a grain merchant—discussed often from the days of Cicero to Thomas as a "case study" on the ethical demands of the honorable conduct in business—has not in the least lost its pertinence over the centuries. Here is the case in the words of Cicero:

> (…) suppose, for example, a time of dearth and famine at Rhodes, with provisions at fabulous prices; and suppose that an honest man has imported a large cargo of grain from Alexandria and that to his certain knowledge also several other importers have set sail from Alexandria, and that on the voyage he has sighted their vessels laden with grain and bound for Rhodes; is he to report the fact to the Rhodians or is he to keep his own counsel and sell his own stock at the highest market price? (De off. III, 12, 50ff; in the translation of W. Miller 1913)

This problem had been disputed in antiquity, reports Cicero, for instance by Diogenes of Babylonia (c. 230–c. 150/140 BCE), who made a plea for the right of the merchant to remain silent in order to make a higher profit, and his disciple Antipater (died 130/129 BC) who demanded full disclosure. Cicero considers both views, but ultimately agrees with Antipater and declares it "the duty of that grain-dealer not to keep back the facts from the Rhodians" (ibid. 56). According to Cicero, to do so would be equivalent to a reproachable deception "in trying for your own profit to keep others from finding out something that you know, when it is for their interest to know it" (ibid.). To him, the case of the grain merchant is comparable to a house vendor who misrepresents serious flaws of his object for sale.

Cicero thus identifies two dimensions of commercial activity that Thomas Aquinas takes pains to distinguish: the commission of harmful and the omission of beneficial actions. Unlike Cicero, Thomas holds that while it "is always unlawful to give anyone an occasion of danger or loss," one is not always required—that is, not by the principle of *justice*—to "give another the help or advice which would be of some advantage; but only in certain fixed cases, for instance when someone is subject to him, or when he is the only one who can assist him" (S. th. II-II, 77, 3). For Thomas the examples of the house vendor and the grain merchant are *not* analogous because in the one case positive harm is being done by the concealment of facts, but not so in the other.

> The seller, who offers a thing for sale, gives the buyer an occasion for loss or danger by offering him something defective, if from the defect the buyer could suffer loss or danger: loss, if because of the defect of such kind the thing for sale is worth less, and the seller does not subtract anything from the price because of the defect; danger, if because of this defect the use of the thing is impeded or made harmful, for example, if someone sold to another a lame horse as a fast one, or sold a decrepit house as a stable one, or rotten or harmful food as nourishing. If then such defects are hidden, and the seller does not disclose them, the sale will be illicit and deceitful, and the seller is obliged to compensate for the loss. (ibid.)

In the instance of the grain merchant, however, "the goods are expected to be of less value at a future time, because of the arrival of other merchants, which was not foreseen by the buyers. And so the seller, since he sells his goods at the price actually offered to him, does not seem to act contrary to *justice* by not declaring what is going to happen" (ibid., ad 4; italics, C.D.).

Thomas's position marks a clear progress in ethical theory-building: Whereas Cicero operates from a *singular* concept of morality, extending across all types of human relationships and interactions, and does not ascribe to the realm of business an ethical orientation of its own (wherein, because of context and custom, different standards of behavior might legitimately apply). Thomas uses the customary distinction between duties of *justice* and precepts of *virtue* precisely in order to establish a realm of *economic ethics*. He declares it would be "exceedingly *virtuous*" (ibid.; italics, C.D.) on the part of the merchant, were he to go beyond the strict demands of *justice* in informing his customers or even through voluntarily lowering his prices. While exempting the buyer from a *legal* obligation to reveal information whose concealment is not harmful but whose disclosure would render benefit to the customer, Thomas delegates this decision to economic ethics proper. With this move, Thomas opens a space for the voluntary assumption of social responsibilities on the part of businesspeople. Merchants can thus make or break a reputation for honest dealings. Businesses seeking public acceptance through moral legitimacy may therefore find Thomas's ethics a valuable compass (Koehn 1995).

In sum, Thomas ascribes a normative orientation to the human being as such. If Thomas is right, that is, if an inclination to moral conduct is indeed characteristic of human life, then anthropologies (such as the neoclassical *homo economicus*-theorem) that overlook this normative dimension must err in prognosticating and orienting human behavior; in brief, economics without ethics would—descriptively—be incomplete and flawed, and the *positivism* as well as the concomitant ethical *relativism* so prevalent in modern economics ought to be rejected (Steele 2004). Rather, the *prescriptive* nature of human reason needs to inform any *description* of human agency. Even more sharply we should reject the normative use of the *homo economicus*-theorem, that is, the—prescriptive—direction of economic activity to the (quantitative) maximization of utility in favor of a richer (qualitative) conception of economic success which includes notions of virtue and social responsibility (Cornwall and Naughton 2003).

3.3 Adam Smith on Sympathy

Adam Smith (1723–1790) may seem an unusual choice for deliberations on economic ethics. Adam Smith is, after all, best known today as "the founder of scientific economics" (Haakonssen 2006), as a precocious advocate of economics along the lines of the later Chicago School of Economics even, having built the edifice of modern economics on "the granite of self-interest" (Stigler 1971). Enlisting Smith for the defense of an ethics-based paradigm of business may thus come as a surprise. Conventional management pedagogy still widely claims that Smith considered the worlds of ethics and economics to be unrelated and that, in effect, society fares best when individuals remain uninhibited in pursuing their individual interests.

On this predominant view of Smith's works, efforts to introduce ethics in economics and morals into the economy appear not only as naïve, but as counterproductive, that is, as hindering the very forces for good working, invisibly but potently, within free market societies.

In recent years, though, ever more philosophers have come to defend a wholly different interpretation of Smith and his works: one that considers Smith as a defender of values, virtues, moral reason, and socially embedded rationality (Hühn and Dierksmeier 2015). A growing body of scholars feels the neoclassical interpretation has corrupted Smith's original intentions (Faccarello 2005; Forman-Barzilai 2010; Brown 1994; Raphael and Macfie 1975, and others). These scholars emphasize that Smith never saw the human being merely as an economic agent subjected to the rational pursuit of self-interest; instead, as the professor of moral philosophy that he was, Smith considered individuals as socially minded, politically spirited, and contextually oriented persons. Following this interpretation, one would have to interpret the economic theory in Smith's *Wealth of Nations* in the light of his earlier work *Theory of Moral Sentiments* and with reference to his moral philosophy in general (Ross 2004).

Who is right? A brief glance at his writings clears up the issue. For Adam Smith considered ethics as "by far the most important of all branches" of knowledge (Smith 1776: V.i.ii.30). Indeed, in light of what he actually wrote, Smith appears the most-quoted but least-read economic thinker of all times. For Smith makes clear throughout his works that the individual pursuit of gain can only lead to social benefit under several conditions:

- legal strictures against fraudulent and exploitative contracts as laid out in both his *Wealth of Nations* and his *Letters on Jurisprudence*,
- political governance of the economy through sizable taxes and vigilant regulation (see especially the latter parts of the *Wealth of Nations*),
- sound social mores and customs so that people, via emulation of their role models, are prone to behave in ways conducive to the common welfare, and
- personal morality, based on "empathy" and the ability to assume the perspective of an "impartial spectator."

The two latter aspects, assuring that deficits and failures of the market are compensated for by individual and collective actions of charity and benevolence, are especially brought out by recent research on his *Theory of Moral Sentiments* (Cockfield et al. 2007).

As a result, Smith scholars do not think the metaphor of the "invisible hand" (used only thrice in his works) was at all intended to encourage individual selfishness or to recommend unregulated *laissez-faire* markets (Rothschild 1994). Rather, they emphasize that in order to judge and adjust social and economic affairs Smith recommended the perspective of the "invisible spectator" (Montes and Schliesser 2006).

It matters obviously a great deal which interpretation prevails, since Smith's ideas are still highly relevant today. In the economics and management mainstream, Smith is regarded as the chief apologist of the idea that self-interest can by itself operate as an economic benefactor—insofar as the invisible hand transforms its operations into wealth for all. About 30 years ago, the adoption of the "standard Smith" view drove a virtual revolution in macroeconomic policies—the leitmotifs of which are still prevalent among many government advisers worldwide. Likewise, in many economic textbooks, Adam Smith has been used—and continues to be used—to justify the "business as usual"—approach of narrow-minded profit-maximization.

However, if Smith really advocated morally responsible forms of business, then mainstream economics and management theory would be forced to seriously reconsider and debate their central axioms. The outcome of this debate might well be a new relationship between business theory and practice on the one hand, and business theory and ethics on the other. It is with a view to these significant consequences that we are to study his theory of economic agency.

Smith's theory of business rests on the premise that empathy ("sympathy" in Smith's own formulation) is necessary for any market exchange (Otteson 2002). Sellers, for instance, need to empathize with their customers in order to be able to make them attractive offers. In other words, rational self-interest can achieve its purpose only through a concern for others. In this way, commerce enforces—at the very least—a strategic interest in one's peers, colleagues, clients, customers, and so on. For Smith, sympathy is "the gravitational force of social cohesion and social balance" (Raphael 1978) that enables others to empathize with their peers. This, in turn, allows people to behave compassionately toward one another: Empathy ("sympathy") prepares the ground for feelings of solidarity.

Smith's understanding of "sympathy" is close to the etymological roots of the word in Greek: *sun pathos* (Latin: *com-passion*, feeling with, feeling like someone else), and signifies the human ability to imagine oneself in the situation of someone else and, from the perspective of an imagined "impartial spectator," "to arrive at moral evaluations of each other's actions" (Griswold 1999). Such moral spectatorship is central to Smith's economics. In his analysis, markets are not sustained by self-interested calculus alone, but are also generated and regenerated by a desire for fair social exchanges (Fleischacker 2012). When people feel the need to barter and trade, they do so not necessarily for reasons of rational utility-maximization, but also out of sympathy and to reinforce mutual esteem and fellow feeling.

Likewise, Smith's notion of self-interest or "self-love," as he preferred to call it, has very different contours than those standard definitions of self-interest used by modern-day economists; it has strong moral undertones, reflects a broader range of concerns than simply material self-interest (Rick 2007). Unlike modern mainstream economics, Smith did not operate with a dualistic conception of the individual as virtuous in his or her private spheres, and as publicly or commercially egotistic. Instead he hoped that personal integrity would transpire into the public sphere as well.

But does not this morally enriched understanding of Smith's theory stand in contrast to one of Smith's most famous expressions, replicated in nearly each and every textbook on microeconomics?

> It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. (I.ii.2)

Taken out of context, the quotation does indeed seem to endorse the idea that a rational pursuit of self-interest is a human being's prime economic motivation. This reading, moreover, seems to be corroborated by the following passage about the average "laborer":

> He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. […], 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. (IV, 2 9)

Smith seems to suggest that pursuit of self-interest can lead to the unintended, though positive side-effect of societal welfare.

Modern economic and management textbooks have come to interpret this passage as a rationale for selfish behavior. Such interpretations, however, stand in contrast to numerous other passages where Smith described the interests of economic agents as being "always in some respects different from, and even opposite to, that of the public," and that these agents generally have "an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it" (I, 11 264).

So what are we to make of these discordant themes in Smith's doctrine? Smith's *Lectures on Jurisprudence* and numerous passages in *Wealth of Nations* give us clear evidence that Smith intended the law to prevent individual actions and transactions from creating harm for others. Where the reach of the law, however, proved too short or shortsighted, he appealed to ethical comportment as a means to bridge the gap. Smith felt that ethical conduct could encourage prudence and virtuous behavior only if supported by justice (Griswold 1999). By embedding all economic transactions in a threefold ethical structure, comprised of the ethics of personal *morality* (promoted by soft sanctions, social recognition, and practices such as naming, shaming, and blaming), a *legal* framework (enlisting the hard sanctions of the law), and ethical economic *policy*, Smith reasoned that individual commercial interests could be so channeled as to ultimately enhance the welfare of the public.

Another point of difference between conventional and modern interpretations of Smith's works is regarding the nature of business corporations. According to conventional views, any deviation from the notion that the "business of business is to increase profits" (Friedman 1970) is seen as hindering Smith's "invisible hand" from doing its magic and thereby engendering societal harm. In modern interpretations of Smith's work, however, Smith is seen as lamenting the socially detrimental tendencies of corporations and their managers.

> The directors [...], being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private company frequently watch over their own. [...] Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. (IV, 7 177)

Managers, according to Smith, are not always forced by competition to serve the public well-being—a tendency that worsens as corporate size and power increase. Smith, for instance, vociferously criticized the East India Company for its "monopoly, [and] for all the extraordinary waste which the fraud and abuse, inseparable from the management of the affairs of so great a company, […] necessarily have occasioned" (Ibid.).

Smith's proposed therapy for this problem, however, is quite different from what twentieth-century scholars prescribed: Whereas the *principal/agent*-theory recommends fueling the monetary interests of managers through options and share packages (Jensen and Murphy 1990), Smith simply held that corporations should be more strictly overseen and regulated by the public.

The same principle holds true for traders on the stock markets. We cannot assume that their financial interests will automatically and always drive them to allocate goods in the best interest of society. Contrary, therefore, to the view that businesses serve the common good indirectly through their activities and through market forces, Smith shows that the firm's and the public's interests must be carefully brought into unison. Businesses and corporations must go beyond mere profitability in order to serve the public good.

Smith, we can conclude, was not a champion of radical libertarian or anarcho-capitalist *laissez-faire* approaches to economics. He neither advocated for totally unregulated markets nor for complete government regulation. Smith considered justice as the main pillar without which human society would disintegrate and "crumble" (Smith 1759, II.ii.4). For that reason, Smith scholars emphasize, the moral perspective of the "invisible spectator" in order to judge and adjust socioeconomic affairs is much more characteristic of Smith's thinking that the metaphor of the "invisible hand" (Montes and Schliesser 2006). In short, the image of Smith as a "*laissez-faire*" proponent is mistaken (Young 2009), and the fact that it still dominates much of management literature might solely be due to the fact that the quotes amenable to brand him as such are all to be found on the first 40 pages of his *Wealth of Nations*, whereas the passages which run counter to this interpretation are to be found farther into the several hundred remaining pages of this voluminous work (Heilbroner 1953).

Smith was not a libertarian but rather a social-democratic thinker who considered high degrees of inequality as destructive for the moral fiber of society. Some inequality was both fair and tolerable. The social fabric, so to speak, can be stretched, but it must never be torn. Smith warned that once societies pass a certain threshold of inequality they disintegrate and become less prosperous as a result. Smith's ideal was an active government that saw to it that the visible hand of sound economic policies would right the wrongs of the invisible hand of the market. For example, Smith recognized it a duty of the state to run certain public institutions that "can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society" (Smith 1776) (IV, 9 51).

Smith, in short, never wanted to separate ethics and economics but rather considered the conditions how they could best support one another. This reassessment of Smith's works has important implications in three areas affecting the modern Corporation and contemporary business contexts: *strategy*, *corporate responsibility*, and *corporate governance*.

If *strategy* is about delivering value to customers, then companies have to start putting themselves in their (potential) customers' shoes by taking a page from Smith's lessons on "sympathy." In so doing, corporate strategies would become much more creative, responsive, purposive, and social-minded. Another outcome is an affirmative view of *corporate (social) responsibility*. Smith showed it is morally permissible, even advisable, for corporate leaders to extend their attention to the local community of their business. Last, in terms of *corporate governance*, we can conclude: If Smith is right in making the "impartial spectator" the pinnacle of individual moral development and thus a necessary element of every durable societal consensus on norms and values, then it is imperative for firms to represent this viewpoint internally (through boards, policies, codes, revision procedures, etc.) and to abide by it or at the very least to discuss their stances openly (otherwise, costly conflicts with the public may ensue). Firms must aspire to incorporate the concerns of all those affected by their business models into their activities; and for that to happen, businesses must learn to read the language of the ecosystems that surround them. As a consequence, we must abandon the Smith narrative prevalent in business theory for the last 200 years that isolates ethical considerations from economics. It prevents that students are adequately prepared for their societal and personal responsibilities as future managers and leaders.

3.4 Lessons Learned

Between the writings of Aristotle, Thomas Aquinas, and Adam Smith lie ages. Empires waxed and waned, various societal and governmental frameworks (monarchy, aristocracy, oligarchy, democracy) were being tried and tested, and, last not least, the larger intellectual constellations of the times transformed dramatically (e.g. from the geocentric to the heliocentric worldview). Likewise, dramatic change occurred on the economic level. Each of the portrayed thinkers arrived at his economic ethics based on markedly different experiences. Aristotle observed the Hellenistic and pre-Hellenistic political constitutions of Greek city-states and Middle Eastern empires; Thomas Aquinas analyzed the economies of European and mostly Christian monarchies; and Adam Smith already oversaw the budding of a global economy and the forming of bourgeois societies based on functional rather than hierarchical governance structures. Yet all the manifest transformations of the world of commerce notwithstanding, a common thread connects their economic philosophies. For each of them, ethics was integral to economics.

By tracing the history of economic thought up to Smith, we realize that we have much to *relearn* from our intellectual forbearers. Stepping outside the narrow confines of the neoclassical paradigm, we uncover a more variegated understanding of economics and a richer anthropology. As our journey through the ages showed, economic activity was—for thousands of years—guided and directed by moral, theological, and metaphysical reflections about the good of human kind. By heeding to the wisdom of the past and by imbuing our economic activity with them, we attain the possibility of redirecting the current course of economic affairs toward a more sustainable and just future, where all people have the ability to thrive.

Whereas today still numerous economists aspire to provide their students with ethical orientation (Moosmayer 2012), few actually accomplish that feat (Wang et al. 2011), and this is by no means accidental (Hühn 2014). Presently, ethics enters the economic pedagogy—if at all—as an add-on to a curriculum that otherwise is, or at least pretends to be, "value-free" (Seele 2016). In short, even where students do get a smattering of instruction in terms of business ethics, corporate social responsibility, and the like, such courses do not represent but rather run counter to the mainstream of their overall instruction.

The epistemology, ontology, and methodology of economics have long since tracked positivistic lines. Moral thinking is being rejected as unscientific and thus appears nowhere to be an ingredient of economic analysis. These days, ethics enters only "at the end," as it were, that is, once the picture of economic reality has already been drawn up. Little wonder then, that many students and professors of economics suspiciously view ethics as irrelevant, at best, and—where its tenets conflict with economic ontology—as downright contrary to prosperity, at worst. Moral thinking has thus shrunk to the, often futile, attempt to curb particularly noxious forms of economic agency.

In contrast, Aristotle, Thomas Aquinas, and Adam Smith agree that ethics is fundamental to economics: Moral thinking lays out the strategic goals of business and the economy and provides thus an important orientation by which means to advance and by which measures to assess micro- and macroeconomic success. That is to say, for over 2000 years, the ethical evaluation of certain economic means and measures never appeared as an afterthought to economic analysis but provided its basic terms of reference. This difference matters.

Presently, many economists who do afford themselves the luxury of moral deliberations ask themselves as well as their audiences as to whether society can afford to adhere to certain moral values or whether the economic costs of doing so would be too high. It is difficult even to conceive of such a conundrum within the framework of anterior economics. For whereas to portray the relations between ethics and economics in terms of a trade-off appears a fair *characterization* of today's perspective, it would have appeared a *caricature* to ancient, medieval, and early modern thinkers. Theirs, after all, was an economics from the outset devoted to the realization of moral propositions. Economic policies and the structure should not "also" and "ideally" be in line with moral strictures, as we are wont to see it today, but rather they were to be ethically integer in the first place.

A direct outcome of this contrast in perspectives is the assessment of *corporations*. Medieval societies only knew *partnerships* where all investors also bore the risk of failure and were thus appropriately cautious. Modern societies, however, felt that such risk-averseness might hamper entrepreneurial endeavors that were very much in the interest of society overall. In other words, if and only because certain businesses could realize a greater good for all, society supported the few who underwent the respective economic efforts by affording them certain privileges.

In Smith's *Wealth of Nations*, for example, we can often observe this "ethics first"-attitude still predominant in the late eighteenth century. Insofar as certain business outfits showed promise to bring about a public good (by building a bridge over the Thames, say, or by equipping ships so as to bring home spices and other herbal medicines from the Indies), they could, given the notable risk of failure and concomitant penury of such endeavors, apply for incorporation as a commercial society with "limited liability." That means, ethics was the *unconditional foundation* of economics that provided the very *conditions* under which business was granted what today we call its "license to operate." Today, however, the relationship is reversed. Economic imperatives define the tolerable ambit and aspirations of ethics. Aristotle, Aquinas, and Smith would have rejected this sorry state of affairs as perverse.

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CHAPTER 4

The Liberal Paradigm

Abstract This chapter begins from the premise that we cannot go back behind the insights of the Enlightenment era. The plurality of convictions in the contemporary world determines—factually as well as normatively—the way we conceptualize ethics at present. No longer is there but one conception of "the good" for each and every one. People deserve the chance to make up their own minds about the values that guide their lives. With individual freedom as its base, the "Liberal Paradigm," does not, however, exclude teleological orientation, as demonstrated by the ethics of Immanuel Kant. After a brief overview of Kant's ethics, the explication of the liberal paradigm proceeds by establishing a distinction between *quantitative* and *qualitative* concepts of freedom. The application of these conceptions to current management conundrums—in the areas of corporate strategy and culture, leadership, and organizational governance—helps to separate the wheat from the chaff in the field of contemporary management theories.

Keywords Liberty • Responsibility • Quantitative freedom • Qualitative freedom

Between Aristotle and Aquinas on the one hand and our present situation on the other, there is a big gulf, not only temporally but also philosophically. Whereas in Antiquity and the Middle Ages philosophy offered

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assurances of the universal validity of certain moral as well as metaphysical laws, such promises did not always endure the scrutiny of the Enlightenment. The metaphysical foundations of previously dominant *teleological* worldviews came into question. New generations of thinkers began to doubt their underlying assumptions, and asked which moral norms might apply to people who did *not* share the worldviews that Aristotle and Thomas Aquinas espoused. With the advent of modern science and public education, even more people questioned the authority of scripture, and, as a result, began to scrutinize critically the ethical fundamentals of established worldviews, especially where these prescribed and proscribed behavior in a way that clashed with the individuals' quest for freedom.

Immanuel Kant (1724–1804) drew the appropriate consequences from this constellation and developed his virtue ethics in response to the rising skepticism of his age. According to him, one cannot simply deduce certain moral postulates from metaphysical tenets. Rather, we need to approach ethics from the plateau of individual and institutional freedom and the pluralism of worldviews that entails. While we do not have to give up on teleological thinking altogether, we must harmonize it with the liberal intellectual framework upon which today's open societies rest. Studying Kant helps to dispel the widespread myth, that is to opt for freedom is tantamount to voting against any and all (*teleological*) conceptions of "the good," or *vice versa*. Insofar as contemporary economic philosophy wants to reappropriate insights of ancient, medieval, and early modern thought within the ambit of freedom of philosophy, Immanuel Kant provides the gateway. His ethics is paragon of how to reconcile the idea of freedom with the teleological conceptions of "the good."

Kant serves not only as a bridge-builder between the *teleological* and the *liberal* paradigm, however. Through this accomplishment he also prepares the ground for the subsequent humanistic paradigm, namely by working out a conception of human *dignity* premised on moral autonomy. Kant's freedom-based ethics is thus "the" pivot on which the history of moral philosophy turns. This is the *philosophical* reason why contemporary economic ethics ought to take its cue from his conceptualization of the principle of liberty.

There are *economic* reasons for this concentration, too, though. The idea of freedom has been pivotal for the development of capitalism. The socially and economically emancipated *individual*, the free *market*, and, not least, the modern *corporation*, based upon voluntary work contracts and cooperation, all have become synonymous with the concept of a free *society*. For decades, therefore, few scholars questioned the basic assumption that the concept of an open, liberal society and the construct of liberalized markets and economies went hand in hand. Economic ethics must come to terms, therefore, with the principle of liberty upon which the economic order of today is premised.

The idea of freedom has a long history—replete with disputes over the true meaning of liberty. Forever, social environments influenced what people at any given time identified as freedom (Patterson 1999). Cultural differences too weigh in on the definition of freedom. These days, Europeans and Americans differ considerably in their understanding of the right balance between personal and societal freedoms, private and public goods (Rifkin 2004). To be sure, no society operates with one single concept of freedom; different aspects and degrees of liberty are effective in all. Rather, there is wide dissent over *which* notion of freedom provides the adequate form to conceptualize the liberties, rights, and obligations of modern management. Criticisms of shareholder-centered capitalism, for instance, have often addressed the many limits it imposes on the freedom of the underprivileged, or of future generations (Cragg 2002; Freeman et al. 2004; Hart 2005). Proponents of shareholder capitalism instead fend off any such criticism as a threat to economic freedom (e.g. Friedman 1962; Sundaram and Inkpen 2004). Whose concept of freedom is right? Which notion of liberty should prevail?

Not every economist and economic philosopher understands the idea of freedom the same way. Notions of positive and negative freedom (Berlin 2002), formal and substantive freedom (Sen 1999), individual versus collective, or bourgeois versus socialist (Marx 1906), libertarian versus communitarian notions of freedom compete with one another (Harvey 2005; Taylor 1999). Which particular concept of freedom is being used to provide the foundation for a certain political or economic theory influences the resulting ethical, strategic, and structural choices ethicists recommend. Hence we must pay careful attention to the different notions of freedom used in contemporary economic theory and business ethics. After reconstructing Kant's notion of a morally responsible freedom, open to certain conceptions of "the good," we try to systematize Kant's insights by establishing a distinction between *quantitative* and *qualitative* freedom. This conceptual device serves us afterward as an interpretative matrix providing the requisite moral orientation for surveying the field of contemporary economic and corporate ethics.

4.1 Kant as a Bridge-Builder

The German philosopher, Immanuel Kant (1724–1804) has often been portrayed as the archenemy of teleological thinking, that is as someone who played out freedom and the "right" against all concerns for happiness and the "good." Such depictions misrepresent his philosophy. Kant did not so much want to extinguish the topics of good and virtuous living but to supersede and integrate them by a theory of freedom. Taking freedom as the bedrock for both his theoretical and practical philosophy, he argued for virtue on the premise of such liberty. Instead of invoking "eternal laws" to justify their preferred concepts of virtue, Kant argued, people had to make plausible that their call to virtue was no outward imposition but derived from a line of reasoning premised on autonomy.

Kant's ethics contrasts in form and procedure with those of previous eras; instead of beginning with metaphysics and ending with a doctrine of morals, Kant reversed the direction and made human freedom the basis of his ethics.

This image of Kant clashes with the typical depiction of Kant in business literature, where he is typically portrayed as overly formalistic, devoid of substantial content, and without regard for the consequences of actions or questions of character. I have argued elsewhere at length that those standard portrayals of Kant have to be revised (Dierksmeier 2013). The following reconstruction of the main tenets of his ethics also refutes these assumptions. They show Kant instead as a thinker with high regard for the teleological tradition who is at pains to salvage its essence for his own day and age.

Central for economic ethics is (as we will explain in Sect. 5.1) the idea of human dignity. We can approach Kant's version of this idea through one crucial formulation he gives the moral law: "So act as to treat humanity, whether in thine own person or in that of any other, in every case as an end withal, never as means only" (AA IV: 429). We can, that is, treat others as means to our ends and in turn serve them as means to theirs, provided that in each of these relations all are regarded and respected as autonomous subjects—as an "end-in-themselves," as Kant puts it. We must, however, never objectify persons because

> that which constitutes the condition under which alone anything can be an end in itself, this has not merely a relative worth, i.e., value, but an intrinsic worth, that is, dignity. Now morality is the condition under which alone a rational being can be an end-in-himself, since by this alone is it possible that he should be a legislating member in the kingdom of ends. Thus morality, and humanity as capable of it, is that which alone has dignity. (AA IV: 433)

Kant rejected the common notion that one is first free—and then, later, submits (or not) to moral laws. The crucial but somewhat counterintuitive point is that Kant explains human freedom from the ability to realize moral commands, not *vice versa*. If human beings were only (negatively) *free from* natural impulses but not also (positively) *free to* follow a higher, that is the moral law, then freedom would appear merely as an erratic deviation from an otherwise regular (i.e. naturally determined) behavior. Free actions would then be wholly unpredictable and we could neither impute them to their actors, nor assign moral responsibility (Dierksmeier 1998).

Human freedom is, however, no chaotic deviation from natural determination. Rather, it realizes itself quite orderly, holds Kant, through an alignment of natural causes according to supervening (moral) concepts. The call of the moral law liberates us from natural inclination by making us free to realize moral ends (or not). At the same time, the moral law holds us accountable, when we decide otherwise and succumb to determining factors of an immoral sort. In short, *through our ability to be moral, we gain freedom*—both to be moral, and also, derivatively, to be immoral (Timmermann 2008). Consequently, not arbitrary freedom of choice but our capacity for moral freedom must be seen as the true source of the unique status of the human being and its specific *dignity*.

According to Kant, it is not factual moral obedience to the moral command that (conditionally) accounts for our dignity but rather the (unconditional) ability to such obedience, even when it does not materialize into moral actions. We need to discern between the *relative* value of persons according to their moral merits and the *absolute* dignity of human beings as such. All human beings have *dignity* (*Würde*)—through being able to be moral—but only those who lead moral lives are also of high ethical *value* (*Wert*). This distinction enables us to reconcile the otherwise conflicting intuitions that, while we must *respect* the dignity of each, we should *praise* those who lead lives beyond reproach. Thus we can proclaim that everyone should always be treated with dignity, while some may, in addition, deserve heightened esteem. Whereas to pay particular homage to the latter remains a discretional duty of individual morality, general respect for human dignity can and should be organized in egalitarian forms, assured by legally sanctioned norms. We need to respect and protect the dignity of human life even in those who, in our eyes, constantly make bad choices. Thus does Kant disallow any paternalism—in business as well as in politics—that subjects people on account of their alleged "inferiority" and inability to govern themselves. The pledge to respect human dignity demands, instead, an ethics characterized by an egalitarian regard for the autonomy of all (Bowie 1999).

Kant demands that all individuals are respected as "ends-in-themselves," that is that nobody's dignity is violated by objectification and instrumentalization. Kant names a world conforming to this stricture a "kingdom of ends" (AA IV: 436ff.). Were we to live in such a world, Kant suggests, the purposes of each would find respect and support insofar as they in turn respect and support the (morally legitimate) purposes of others. His conclusion: We shall act so that we advance such a moral realm; that is, we shall pursue ends that integrate the ends of others insofar as these do not contradict the moral law (AA V: 453).

Since the individual quest for the "highest good" is directed by Kant to bring about a "kingdom of ends," it culminates in a social dimension (Brugger 1964). The *interpersonal* aspect of Kant's ethics arises from the *personal* sphere (Kersting 2004). In Kant, there is consequently neither a false identification, nor a false dichotomy between the private and the common good (Habermas 1991; Blesenkemper 1987). The public deliberation on how to promote a "kingdom of ends," where moral desert and personal happiness are optimally aligned, is a result of the individual's quest for the good life (Gehrke 2002). Kant's ethics, notwithstanding its individualistic orientation, can thus address collective action and corporate responsibilities (*pace* Altman 2007).

The path to an ethical life, Kant holds, is to seek our own happiness (*Glückseligkeit*) only through forms of morally worthy behavior (*Glückswürdigkeit*). Thus we would bring about the "highest good of practical reason," which, in his understanding, represents both the *natural* and *moral* orientations of the human will (*Glücksseligkeit* and *Glückswürdigkeit*) in harmonious synthesis (AA V: 110).

Through which particular kind of actions can one advance this synthesis? According to Kant, only two purposes qualify (AA VI: 386): the promotion of one's own perfection (*eigene Vollkommenheit*) and the furthering of the happiness of others (*fremde Glückseligkeit*). Thus, importantly, Kant deliberately eliminates the promotion of one's own happiness and of the perfection of others from the canon of virtuous life goals—in contrast to much of the anterior ethics.

Kant's argument for this markedly selective use of the teleological tradition is: While all are naturally inclined to promote their own happiness, this happiness is a legitimate concern only under the *condition* of being "worthy" of promotion, and thus refers back to the moral law as the source of *unconditional* value (Kaulbach 1996). The moral perfection of others is also not for us to advance. We cannot exert force on the morality of others, nor would we be entitled to override their moral freedom. Hence "the good" can only be furthered by *perfecting oneself* and by promoting the *happiness of others* (Düsing 1971). So does Kant become a paragon for the *liberal* paradigm of ethics in which nothing can be deemed moral if it goes against the *ethical autonomy* of others.

Through this orientation to a dual moral purpose, the *structural* commandments of the *categorical imperative* assume crucial ethical *substance*. One ethical concern of moral agents must be the "qualitative perfection" of their own self (AA VI: 416). Individuals are called to cultivate those capabilities that help them to become ever more apt and inclined to virtuous conduct. The best way to accomplish this goal, says Kant, is through constant practice (AA: VI 397), particularly the practice of charity or "practical love" that accustoms us to "make the purposes of others (as long as these are not immoral) our own" (AA VI: 450).

> When it is writ: Thou shalt love thy neighbor as thyself, this does not mean: you shall immediately (first) love and (then) treat him well, through the mediation of said love, but rather: treat your neighbor well, and this activity shall then effect benevolence [*Menschenliebe*] within you (as an affective readiness to benign actions)! (AA VI: 402)

Moreover, if we direct ourselves to act with charity toward others, Kant surmises, we will also reap an emotional reward: heightened esteem for, contentment with, and pleasure in ourselves (AA V: 117, VI: 67, 74, 377). This helps us to continuously practice virtue so that eventually it becomes habitual (AA VI: 47). Not incidentally, Kant extols individuals who do not have to force themselves to benign conduct (AA VI: 401). For a "cheerful disposition" toward good acts indicates that one has already accomplished sufficient moral self-transformation so as to take pleasure in the good for its own sake (AA VI: 23).

Contrary to conventional wisdom, Kant's ethics is thus not merely a tale of duty for duty's sake (Baxley 2003). He only advocates that the individuals' concerns and interests be mediated by universal conceptual standards (Speight 1997). The latter are never meant to eliminate but always only to regulate the former (Powell 2006). Kant holds that particular, personal motives are legitimate elements of moral judgment and action, as long as we do not employ them to declare a wrong action to be right, or an evil purpose to be good (AA VI: 36). Kant's concern is solely to determine whether such motives make us violate moral commitments.

> Hence the difference, whether the human being is good or evil, must not lie in the difference between the incentives that he incorporates into his maxim (not in the material of the maxim), but in their subordination (in the form of the maxim): which of the two he makes the condition of the other. It follows that the human being (even the best) is evil only because he reverses the moral order of his incentives in incorporating them into his maxim. (AA 6:36)

Kant would accordingly not have demanded that pecuniary interest and calculations never enter into reflections about business ethics (Dierksmeier 2011b). He would only insist that such considerations must not dominate the ethical rationales so as to thwart moral purposes. In other words, there is nothing wrong with pondering the "business case" for ethics as long as this *conditional* rationale is not being (mis-)used to eschew the *unconditional* demands of ethics precisely when and where they do not appear to overlap with financial interests. Putting the ethical rationale first, therefore appears as a necessary, albeit not sufficient, condition for its practical manifestation. Operating from an understanding of the business world that encompasses moral direction, companies might simply be better positioned to identify the *tactical* means requisite for the *strategic* realization of their social ends: a proposition that today is increasingly confirmed by the successful models of *social entrepreneurs* (Nicholls 2006; Haugh 2007; Elkington and Hartigan 2008; Hackenberg and Empter 2011).

Often, the public is wholly focused on the question whether a certain firm "honestly" wants to be a good corporate citizen or whether their respective actions are merely the product of an elaborate public relations campaign (May 2013). Looked at from a Kantian angle, the question ought to be put differently. Conscientiousness can never be proven (AA VI: 67), but only desired (AA VI: 399). We are not meant to *attain* but only to *aspire* to purity in motivation, that is by cultivating our conscience (AA VI: 401). Our duty is not to *have* a specific *kind of motivation* but rather to *undertake* a certain *kind of action* (AA VI: 393). Instead of trying to gauge the motives of (individual or collective) agents directly, our foremost concern is whether they have done everything within their power to accomplish a certain moral goal, because this, says Kant, is a marker of the "good will" (Korsgaard 1996).

If we apply this insight to discussions about the "honesty" and "authenticity" of endeavors in corporate responsibility, corporate citizenship, sustainability, and philanthropy, the crucial question then would not be whether a company is acting from pure motives but whether its actions are morally reasonable. Scrutinizing the credibility of corporate responsibility efforts along Kantian lines, one should investigate whether a company employs (the most) suitable means to promote decent corporate practices. Does the firm act within or without of the area of its core competences? Do they announce such programs merely or do they follow up on them by means of an ethically guided incentive and promotion management, controlling, and so on (Treviño and Nelson 2010)? After all, companies who truly are devoted to their professed goals must aspire to employ their respective financial and logistical means in the most effective way possible. In the interest of the efficiency of such endeavors, from a Kantian approach to business ethics, a move from CSR-policies from the *margins* of corporate activity (PR, risk management) to the *core* (strategy) seems advisable (Dierksmeier 2011b).

Along Kantian lines, a morally committed firm would have to promote the (itself ethically approvable) "happiness of others." Corporations are not, however, called to conjure up a *private conception* of the good in the boardroom. Rather, Kant's theory commits firms to *public discourse* (Freeman 2004). For the normative orientation of this public discourse, Kant suggests an orientation at "maxims which *stand in need* of publicity in order not to fail their end" (AA VIII: 386; orig. italics). "For if they can attain their end only through publicity, they must accord with the public's universal end, happiness; (…). If, however, this end is attainable only by means of publicity, i.e., by removing all distrust in the maxims (…), the latter must conform to the rights of the public, for only in this is the union of the goals of all possible" (AA VIII: 368). Kant's rationale for this proposal—originally formulated with a view to politics—has an interesting ring to it also for the application in the realm of business.

Kant advocates, to put it in contemporary terms, a *stakeholder-model of governance*: What concerns all should be accomplished by the—at best active and at least representative—participation of all (Dierksmeier 2011b). Such a *procedural* rather than *substantial* account of what constitutes human happiness and well-being transforms stakeholders from *passive beneficiaries* of corporate benevolence to *active agents* of their own welfare (Kaptein and Van Tulder 2003). Accordingly, people, not firms, ultimately decide about the timely and contextually adequate vision of "the highest good." Instead of molding (or even contorting) that vision, business should heed it (Thielemann 2005). The corporate mission statement, consequently, should be the outcome of a *dialogue* with rather than a *monolog* about society (Kimakowitz 2011). The foremost Kantian contribution to the concept of *Corporate Social Responsibility* would therefore be the mandate to *respond* to *society*, especially when it comes to defining the "objective functions" of business.

Once this dimension of his ethics—its inherent direction to a conception of "the good" interpersonally defined—is more broadly recognized, Kant surely stands to play a more prominent role in future debates on economic and business ethics. For example, to deliberations about the common good and the connection between individual and civic responsibilities (Etzioni 2004), Kant's works contribute much. Kant's approach clearly offers attractive perspectives for modern conceptions of *Corporate Social Responsibility* by providing the requisite conceptual conditions for a contemporary theory of public morality (Dubbink and van Liedekerke 2009).

Proceeding, as Kant does, from individual virtuous conduct to a societal conception of a "kingdom of end," (or, in modern parlance, addressing the debate about public and social goods from an individualistic, yet interpersonally oriented angle), allows him to show that certain forms of pursuing the common good and of collective responsibilities are simply endemic—and thus not at all inimical—to individual freedom (Dierksmeier and Pirson 2010). Between the extremes of atomistic individualisms and totalitarian collectivisms, Kant's approach thus offers an important "middle ground" with evident attractiveness for contemporary conceptions of the "common good." In other words, Kant offers us the conceptual tools to reconcile what is best in both the *teleological* and the *liberal* paradigm. And, as I will argue later (see Chap. 6), this is precisely the intent behind the *humanistic* paradigm of economics.

4.2 Quantitative Versus Qualitative Freedom

The study of Kant showed how the ideas of *freedom* and *responsibility* could be reconciled in a way that permits us to pursue both *individual liberty* and the *common good* at the same time. But if Kant was right, how is it then that many contemporary thinkers could perceive a conflict between the *liberal* and the *teleological* paradigms? What constitutes this conflict is, as I argue below, a merely *quantitative* understanding of liberty. What could resolve the conflict is, therefore, its correction by a *qualitative* idea of freedom. Through such a conception we can reconstruct the lessons of Kant's philosophy in a way that makes his insights amenable to economic ethics. These are the main theses developed in the subsequent sections.

Freedom has always been a hotly contested subject. In order to provide orientation in the midst of these numerous crisscrossing lines of liberal thinking, we need to abstract from the *historical* material in favor of developing a *systematic* matrix. In what follows, I am clustering the many, variegated existing understandings of liberty into two "archetypes"—*quantitative* and *qualitative* freedom. Admittedly, these two polar-contrary concepts do not *describe* any one of the manifold existing freedom theories adequately. Rather, all the more well-known theories of freedom—from Isaiah Berlin (2002, 1970), Robert Nozick (1974), Friedrich August von Hayek (1970), John Rawls (1999), and Amartya Sen (1999), to name but a few—would have to be classified and located at various points *between* these two poles. Still, these "ideal types" reveal a hidden logic behind numerous freedom theories. And by using these archetypes we avoid confining our analysis to any one of these established theories (each one of which would warrant a thorough study of its own). Following the different logics underlying the quantitative and qualitative categories consistently to the end, we arrive at a conclusion independent of any precursor but relevant for all freedom philosophers. So, although some authors do defend positions quite similarly to the ones described here as quantitative and qualitative freedom, they never end up with the exact same conclusions, as stipulated by this model.

Let us begin our investigation with the commonplace understanding of freedom as the liberty to do as one pleases. Somebody moves freely through space, for example, without interference from others. Once, however, such interference takes place and individual freedom reaches boundaries, some interpret these restraints as *negations* of freedom. In their view, freedom is something that the individual possesses, ready-made, by nature; something that one can lose but not gain through society. Within such parameters, the meaning of freedom is readily identified with the scope and *amount* of freedom. Aiming for the largest possible *extension* of the individual realm of choice, the maxim of this understanding of freedom is: The less individual choice is influenced, the better. Its paradigm is *quantity*.

Typically proposed as a "freedom from" (restraints) or as "negative freedom," such positions are opposing more comprehensive notions of liberty, traditionally called "positive freedom," that is, a "freedom to" certain pursuits and achievements. The history of the distinction between negative and positive freedom reaches back to the works of Hegel (who used the term "negative" freedom to criticize Fichte for an overly formalistic notion of liberty in contrast to the more "concrete" type of civic freedoms that he, Hegel, favored). It has then moved from Marx (who pitted the "negative freedoms" of the market-sphere against the "positive" freedom to transform bourgeois society such that it would allow also the proletariat to live autonomously) to Thomas Hill Green and Francis Bradley (Dierksmeier 2010). These "British Idealists" used the term "positive" freedom in order to denote the need for freedom to aspire to certain goals, whereby Green especially emphasized the social empowerment to the pursuit of such goals and Bradley more their moral quality. Isaiah Berlin had in view his ultimate turn of the debate, when he popularized the negative-positive distinction in order to sever (what he saw as) the legitimate use of the concept of freedom (i.e. negative) from its (allegedly) illegitimate counterpart (i.e. positive freedom), which, Berlin suggested, opened the door to all sorts of totalitarian and illiberal readings of the idea of freedom.

For economic ethics these differentiations make a difference. If Berlin's view was correct, one would not have any reasonable option but to declare for "negative" freedom and, by extension, the neoliberal economics and libertarian politics this concept of freedom favors. But recent scholarship (Carter et al. 2007) correctly rejects the negative-positive bifurcation to be conceptually deficient. After all, proponents of *negative* liberty do not have a "negative" but a "positive" objective; from a primary *affirmation* of the individual liberty they argue secondarily for its *defense* against coercive infringements. Without this *positive* good in mind, the notion of "negative" freedom would be nonsensical. Hence negative freedom is an ill-chosen tag.

What defendants of "negative" freedom aim at is rather "quantitative" in nature. They want the maximum *amount* of choice together with the least possible amount of constraints. So, their position is more consistently captured under the heading of *quantitative* freedom. Inversely, what proponents of *positive* freedom have in mind, guaranteeing to everyone the "freedom to" the enabling conditions for autonomous life has patently also *negative* contours: It *restricts* the *freedoms of all* in order to *establish* the preconditions for the *liberty of some*. Positive freedom is thus also a confusing label. Without defining what *kind* of liberty—or, rather, which *quality* of freedom—ought to be granted to all, the concept of positive freedom, in fact, remains empty. Although there are subtle but important differences between the notions of positive freedom and the idea of qualitative freedom (as we shall see below), the notion of "qualitative" freedom better captures the intended meaning of various theories of positive freedom, while (as we shall see below) being not identical to it.

In short, and as the names suggest, *quantitative* freedom is oriented to liberty in its material contour, defending freedom according to the maxim "the more, the better," whereas the notion of *qualitative* liberty is oriented to assess liberties according to the maxim "the better, the more." When examining organizational theory from these divergent perspectives, not surprisingly, one arrives at quite different understandings of the role of the firm, its strategy, and governance structure, with patent consequences for the understanding of leadership, the identity of the organization, and its subsequent culture as well.

The systematic advantage gained by this realignment of the debate becomes clear when reconstructing theorems that spring from the logic of quantitative freedom such as game theories and social contract theories. From a quantitative interest in choice maximization, their standpoints immediately follow: In a finite world, freedom needs limits. If everybody were simply to move around without any restriction, people would inevitably collide with one another, and the resulting conflicts in turn would infringe upon and thus reduce the overall amount of individual liberty at hand. Thus sanctioned "coordination rules" are called for. Cutting back individual freedom here and there, these rules are meant to help to increase the possible sum-total of composite liberties, and so to enlarge the quantity of freedom for everyone.

The proponents of quantitative freedom argue that for this insight no genuinely *moral* reasoning is needed. Sheer calculations along the lines of Enlightened self-interest, that is computing merely the amounts of freedoms that are being traded off and gained, would suffice to establish these rules. The resulting system of rules could therefore, the argument of adherents of quantitative conceptions of freedom continues, be severed from the contentious debate about normative questions (e.g. about "the good"). Such a system of rules might therefore be endorsed by any and all rational subjects, irrespective of their ultimate (and possibly divergent) moral or religious orientations.

This aspect—the alleged ability of establishing a system of rules for behavior in society on purely analytical, value-free, and "scientific" ways—has gained quantitative conceptions of freedom for many adherents in economics departments, as it meshes well with the intent prevalent in neoclassical economics to replace contentions debates about the quality of values by quantitative computations of sets of options. What may appear as the biggest draw of this conception is, however, its greatest handicap, as we shall see presently.

Government enters the theory of quantitative freedom only as the guarantor of those prepolitically designed rules, having thus its task and purview clearly conscribed. There is no mandate for any state action beyond assuring that each negation of individual freedom meets with corrective governmental action (understood analytically as but a "negation of the negation" of the violated individual freedom). The intention and advantage of this conception is to bar arbitrary compulsion from the outset. For example, within this framework one cannot justify coercion on behalf of moral or religious ends that the respective individuals might not share. Yet any social codetermination of the societal sphere, too, registers with this quantitative notion of liberty as an illegitimate reduction of individual freedom.

Conceiving the respect of other individuals' interest in terms of a limitation and negation of one's own pursuits, a model of *rational barter* suggests itself. Herein, public choice theories, game theories, and social contract doctrines—the predominant strands of liberty/choice-based political thinking in the second half of the twentieth century—fully converge. One is inclined to recognize other persons and their interests only in exchange for something—usually, equal respect on their part. One gives in order to receive, and, as a rational maximizer of self-interest, one gives only as much as one receives, ideally less, and, if possible, nothing. What holds for duties of forbearance carries over to supportive action. One will assist the other, inasmuch as, and only when, the other can be bound to at least a quantitatively equal amount of assistance.

As a consequence, the quantitative concept of liberty protects (in its purest form) only freedoms that one already owns (*factually*), such as the discretionary use of one's body and possessions, but *not* freedoms to which one might claim a (*counterfactual*) right, such as a right to education, to assistance, and to empowerment. In other words, the quantitative concept of liberty operates with *hypothetical* entitlements (i.e. based upon *if-then*-conditions of factual reciprocity), not on a *categorical* (i.e. unconditional) logic. Without symmetrical exchanges, the rationale for either support or restraint is lacking, which has tangible ethical consequences, as we will discuss presently.

Historically, notions of freedom that captured elements of the idea of quantitative liberty have proven immensely powerful in establishing the exchange logic of the market. Still today, quantitative notions of freedom are central to defenses of markets as plateaus of voluntary exchanges, as conduits for the individual pursuit of happiness, as incentive-givers for the reduction of scarcity, as boosters for the creative productivities of individuals' quest for self-betterment, and, last but not least, as meritocratic reward allocation systems. In short, the capitalist economies of today are deeply wedded politically, economically, and culturally, to the quantitative notion of freedom (Dewey 2000).

Yet all is not well with quantitative freedom. As indicated, in situations of stark asymmetry the logic of reciprocal exchange breaks down. The rights of future generations, for instance, typically do not show up in the calculus of quantitative understandings of liberty because agents today could not possibly get anything in return from future persons for action or restraint on their behalf (Dierksmeier 2004). Likewise, it seems only consistent with the quantitative logic when social solidarity stops at national borders, or, more precisely, at the very point where its lack cannot bring about disadvantageous repercussions (e.g. in terms of national security risks or through ecological ramifications).

Quantitative liberty conceptions generally are concerned with matters of socioeconomic participation only in a desultory manner, if at all. In a quantitative conception of liberty, calls to assist the socially, economically, or medically needy, to empower underprivileged individuals, to uplift victims of discrimination, or to protect nature can indeed only be of *secondary* concern. Proponents of quantitative freedom concern themselves with the social, cultural, and environmental contexts of freedom only when the *instrumental* role of these contexts in safeguarding individual liberty is beyond doubt. The burden of proof lies hence with the defendants of the marginalized interests; likewise, precautionary principles or proactive measures on behalf of social or ecological sustainability are quickly being rejected as illiberal assaults on the *status quo*. Even when concerns for the contexts of liberty eventually enter the quantitative rationales, simply *how* these concerns are addressed highlights rather than remedies their secondary status as mere afterthoughts (Dworkin 1989; Galston 1982; Gutmann 1985).

It has not gone unnoticed that it is difficult to integrate into the idea of quantitative liberty the concreteness of individual life and its specific contours (MacIntyre 1988; Sandel 1982). Focused on the *instrumental* role of everything, critics say, the logic of an exchange rationality does not comprehend *intrinsic* value of anything; regional cultures, gender differences, traditional life forms and their respective specificities, that is the very contexts out of which real freedom grows become invisible in the cold light of quantitative freedom (Beiner 1992; O'Neill 2002).

Some have read such critiques as a hidden agenda to deprecate the universal demands of liberty, shunning human rights and emancipation on behalf of anachronistic lifestyles and traditional attitudes (Holmes 1989). Yet this counter overlooks the genuinely liberal underpinnings of those critiques. The intent to make the idea of freedom more sensitive to its contexts and the resultant quest for a self-critical as well as self-constraining liberty is not the outgrowth of an illiberal agenda. Rather it results from an acknowledged need for a more progressive understanding of freedom that allows the harmonization of social, cultural, and environmental concerns with individual liberty on a global scale (Caney 2002; Ingram 2003; Dierksmeier 2007).

Critics of quantitative conceptions of freedom point out that not all freedoms are alike. The sheer quantity of options does not always express what people desire when they clamor for liberty. For example, the choice between many unattractive options is not necessarily more in anyone's interest than the choice between fewer but more attractive ones (Sen 2002: 13). Some forms of freedom clearly seem less worthy than others. The freedom to use your land only to destroy it is probably not of the same kind as the freedom to use its assets to some societal benefit, even if and where legal systems often treat both options alike. Countless further examples, for example from the field of extractive industries with land erosion, soil salinization, and so on in their tow, can be adduced to give voice to the intuition that not only the quantity of our options but also their *quality* matters. The idea of qualitative freedom aims to capture and conceptualize those intuitions.

Opening up the concept of freedom for considerations of quality is, however, not the same as selecting out particular determinations of freedom. Instead, it puts the question before society, which dimensions of freedom we ought to protect rather than others, assuming that not all of them deserve the same degree of protection and that in a finite world we cannot safeguard infinite options (Nedelsky 1989; Wolf 1990). That—that is the refusal to promote any one particular "positive" concept of liberty as the one and only true instantiation of the idea of liberty—is the crucial difference between the idea of qualitative freedom and previous concepts of positive freedom. We shall soon return to this point.

Although devoid of any qualitative determinants, quantitative liberty is in truth not as neutral as it is purported to be. Absent qualitative criteria, the evaluation of economic success takes recourse to materialistic measurements (maximization of financial means, bottom-line profit, return on investment, GDP, etc.). By default quantity renders thus a qualitative decision: not to pursue that which stands in the way of quantitative growth. By sidestepping any qualitative deliberation of which freedoms society esteems most and counting all options alike, the predominance of merely quantitative parameters brings about enormous opportunity costs.

If, for instance, governments take economic action in the name of certain social interests, this action registers conceptually but as "interference" with an otherwise "free" and "efficient" market. The quantitative idea of freedom thus comes out forever on the side of "deregulation" and "monetization" as an alleged "liberalization" of the economy. As a consequence, however, this allows for the *de facto* determination of the citizens' economic liberty by the very powers that dominate the market.

Moreover, quantitative freedom cannot distinguish well between the one *idea* and the many *concepts* of freedom. It is a practical necessity, of course, to make that distinction (Flikschuh 2007: 170). How else would we be able to classify various societies oriented at the idea of freedom, notable difference in political and economic specificities of their governance notwithstanding, each and all as liberal societies? Yet when the only admissible understanding of freedom is quantitative, this requisite and highly useful distinction between the structural idea of freedom and the variegated ways of its material implementations collapses. For in quantitative terms, there can ideally be but one truly free form of governance, that is the one that maximizes options on the individual, corporate, and political level. Thus theories of quantitative freedom tend to monolithic concepts of a liberal economic and political order, which their proponents then aim to globalize. The "Washington Consensus" pushed forward by defendants of neoliberal and libertarian creeds may serve as a, rather deterrent, example.

The idea of *qualitative* liberty therefore starts from the opposite end of the spectrum, by downright asserting that any and all liberty is essentially qualitative; the crucial question is consequently only whether our political and economic *status quo* supports the adequate kind of liberty. Freedom, after all, realizes itself in a certain *gestalt*, which is always specific and limited. Freedom without contours does not exist. And since there are always restrictions to liberty, our quest should not be the futile—and possibly harmful—attempt to reduce these to zero but, instead, to learn to distinguish between better and worse restrictions. This is the general gist of the idea of qualitative freedom.

Numerous philosophers from Kant to Habermas already argued that a meaningful limitation of options—for example in favor of others, or on behalf of the contexts of freedom—does not negate the idea of individual liberty but can instead be its very expression. When we criticize the idea of freedom by itself, we see that every genuine realization of freedom must respect (and should ideally enhance) the very kind of free deliberation it is premised upon. Thus we realize that this qualitative dimension—respect for the autonomy of others— is inherent to the idea of freedom itself. Consequently, the idea of *qualitative* freedom links *personal* liberty to *universal* freedom, endorsing an obligation to empower everyone to lead a life in social, economic, cultural, and political autonomy, including the poor within our societies, the destitute of foreign nations, and future generations. The idea of qualitative freedom thus circumscribes the realm of both individual and societal liberties so that all can live in dignified freedom.

Understanding freedom qualitatively changes our view on social regulation and coordination. Autonomously acknowledged laws then no longer appear as negations of individual freedom, which are to be accepted, if at all, for tactical reasons alone. Instead, they come to the fore as positive manifestations of the very idea of freedom. From this principled affirmation of societal codetermination ensues also a more elevated status of the *contexts of freedom*. The qualitative concept of freedom embraces concerns for social justice and ecological precaution as representative postulates on behalf of the sustainability of universal freedom.

Procedure follows content and content succeeds context: The procedural and material aspects of freedom thus conjoin in a postulate for *participatory* autonomy (Habermas 1998, 1995), which demands that whoever comes under the influence of sanctioned rules ("the affected parties") have a say in their making ("the effecting parties"). In the realm of business, this points us in the direction of theories which explicate the implicit political dimensions of the modern corporation (Scherer and Palazzo 2007).

In the presented contours, the idea of qualitative freedom has only been recently introduced into the academic debate (Dierksmeier 2007, 2010, 2016). It is not unlikely, that it will meet with criticisms that in the past have been made against similar concepts of "positive" and "substantive" freedom. Indeed, the idea of qualitative freedom overlaps notably with the concept of "substantive freedom" advanced by Amartya Sen (Dierksmeier 2016). The adjective "qualitative" better conscribes, however, what is at issue in either theory. Sen sets up his notion of "substantive" freedom against notions of merely "formal" freedoms (Sen 1999). Yet his terminology brings about misleading associations: The notion of "substantive" resonates with "substantial"; so much so that Martha Nussbaum, with whom Sen developed his "capability approach" indeed takes Sen's freedom theory to be one of "substantial" rather than "substantive" freedom (Nussbaum 1998). As a consequence, the term "substantial freedom" might invoke a materially predetermined (i.e. a "positive") concept of liberty that overpowers the very *procedural* conditions of freedom's specification which, according to Sen, are central to his freedom theory. By comparison, the idea of qualitative freedom is all-around less equivocal as it does not conjure up any such connotations.

Like Sen's theory, the idea of qualitative freedom must meet the challenge fielded against any "positive" account of freedom that, through its endorsement of rights to societal assistance, it might bring free societies onto a slippery slope toward compulsory socialism (Friedman 1962; Hayek 1970; Mises 1927; Nozick 1974). While these fears themselves are certainly overblown, behind them do stand noteworthy concerns. The problem that libertarians have with any content-bound definition of freedom has three main aspects. First, there is the concern why some should define for others (e.g. majorities for minorities) what freedom is. Second, libertarians ask whether or not human rights are better protected if we reject any conscription of the idea of liberty, so that nobody can extinguish freedoms by definitional fiat. Third, they hold that only a society which uses its legal tools to the utmost minimal extent will fully enable its citizens to make the most of their freedom (e.g. endorse qualitative freedoms in their private lives), so that, in effect, richer conceptions of freedom—such as the one of "qualitative freedom"—might thrive best in societies that commit themselves to merely the protection of quantitative liberty.

The first challenge can be met by reiterating that the freedom people end up enjoying is always mediated by the circumstances in which they live. "It is nonsense to suppose that we do not have social control now. The trouble is that it is exercised by the few who have economic power, at the expense of the liberties of the many and at the cost of increasing disorder [...]" (Dewey, 1968, 114). Leaving freedom underdetermined, only shifts the definitional power over the freedoms people can access away from their visible democratic representatives to the invisible forces of the market. Theory-induced political passivity is not necessarily more conducive to individual liberty than the conscious democratic activity in favor of freedom for everybody. Why, however, one might counter, should one entrust to the market what is political in nature, that is why let the unequal distribution of money outweigh the much more equitable principle of "one man / one vote" in vital affairs? Constitutional frameworks are needed to avoid a tyranny of the majority. Yet since the idea of qualitative freedom is committed to a critique of freedom by itself, it endorses this precautionary notion at least as strongly as does quantitative freedom.

In response to the second challenge, we concur that in the past, for example by Fichte, Lasalle and, of course, by various followers of Marx, the notion of "positive freedom" was used to advocate a sometimes more, sometimes less compulsory socialism. This, however, is precisely ruled out by insisting that the idea of qualitative freedom demands its critical self-application. Rather than eclipsing liberty by its definition, the idea of qualitative freedom aims to realize individual autonomy through its (ever revocable) self-determination. So, although qualitative freedom does endorse that liberty has and must have limits, the philosophy of qualitative freedom staunchly defends individual and societal autonomy. Proponents of theories that fall within the ambit of the idea of qualitative freedom (e.g. John Kenneth Galbraith, Amartya Sen, Joseph Raz, etc.) have never advocated compulsory socialism. The remaining difference of opinion is thus not between socialism versus liberty but between two different forms of socially constructed liberty: While under the rule of quantitative liberty we are likely to see less intrusive action on the part of the state but more *de facto* compulsion from material needs, under qualitative liberty, a given society may use some (democratically legitimated) coercive action such as progressive taxation to make sure that all of its citizens have a comparable access to a certain set of freedoms in order to fight back the (democratically rarely endorsed) forces of both the natural lottery and the (morally indifferent) market.

Finally, there remains the charge that a society molded after the idea of quantitative liberty leaves it up to everyone to lead a morally more demanding life (e.g. inspired by the idea of qualitative liberty), while under a qualitative societal definition of freedom certain lifestyles would be impeded. Here it is important to note that the idea of qualitative freedom does not at all conflate freedom with any content whatsoever that any one conceivable community might promote. The idea of qualitative liberty in being committed to a critical application to itself generates strict criteria for its application in practice (such as assuring the principle of reciprocity in its recursive iteration). As long as these procedural strictures are met (typically operationalized in political constitutions by principles of universalizability and an insistence on the permanent reversibility of roles and decisions), governments can determine the kind of freedom they want to promote first and foremost without violating the freedom of their citizens or third parties. The procedural nature of the specification process of qualitative freedom can hardly be overrated, as it translates distinction between the various *concepts* of (qualitative) freedom and the *idea* of (qualitative) freedom into practice. Endorsing *that* freedom be democratically qualified is not deducing *which* particular concept of freedom ought to be established in a given scenario. As a result, various (positive, or substantive, or material, etc.) *concepts* of qualitative freedom might, in a given situation, realize the *idea* of qualitative freedom. This, to repeat, marks the crucial difference between anterior notions of "positive freedom" and the idea of qualitative freedom: that the *structural* dimension of the idea of freedom is clearly distinguished from the *substantiality* of the respective concepts of freedom. So, declaring oneself for the *idea* of qualitative freedom does not materially predetermine (but only formally prestructures) the possible *concepts* of freedom a given community might pursue (Dierksmeier 2010).

4.3 Applications to Management

Should management view stakeholder demands for corporate responsibility as limiting the liberties of business or as a welcome manifestation of what economic freedom is all about? Depending on the conception of freedom we sympathize with, we receive contrasting answers. Whereas *quantitative* liberty is oriented around an *atomistic* subject that aims to keep its fellow beings at bay, the idea of *qualitative* freedom operates from a *relational* concept of personality; so, where the former seeks freedom through *independence*, the latter finds it in social *interdependence* (Dierksmeier 2010). Likewise, while quantitative freedom affords the natural, cultural, social, and political foundations of individual freedom, by definition, at best a *secondary* status, they are of *primary* importance to the idea of qualitative freedom.

To some, the idea of quantitative freedom may still at first glance seem methodologically more attractive. In reducing decision-making down to simple quantitative parameters it recommends itself as parsimonious and straightforward. Being amenable to mathematical maximization models, theories of quantitative freedom promise to make difficult allocation and distribution by algorithms. In matter of fact, this promise has never been met in reality and, when approximated, has led to severe externality problems. Through its narrowness, the quantitative approach led to a reductionist economic ontology, eclipsing multiple phenomena from the scope of business theory, which did not prove amenable to mathematical treatment—to the detriment of economic policy and management education.

On the contrary, the idea of qualitative liberty appears cumbersome from the outset. To have all *concerned* by certain policies also *concerning* themselves with their generating does not promise clear-cut or speedy decision-making procedures. It is, to boot, an ideal, which more often than not cannot be met *directly* (direct democracy, network governance) but only by way of *representation* (parliamentary democracy, town-meetings, stakeholder dialogue, etc.). The saving grace of the idea of qualitative freedom is, however, that the processes it requires are themselves an important exercise of freedom, namely of *procedural* and *participatory* liberty: If the actual liberty that people enjoy is the ultimate arbiter of theories of freedom, then a theory should not be dismissed because, through involving the people and promoting their decisional autonomy, it involves demanding decision-making procedures.

In conventional economic models aligned with quantitative freedom concepts, assumptions are tested under *ceteris paribus*-conditions, whereas in reality "all other things" never remain still and equal. Social change hardly ever occurs along neatly mono-causal lines. Complex scenarios of mutually reinforcing processes of reciprocal determination drive societal transformations in rather a "most-other-things-change"-style. Hence, proactive social responsibility-policies, which, in matter of fact, bring about *win/win*-scenarios for corporations and society, are often overlooked in the mechanistic management models crafted along the lines of quantitative liberty theories. When the public is, for example, appealing to corporations to respect not only the liberties of their *shareholders* but of all their *stakeholders* (Donaldson 2003; Smith 2003), then, in models built on the premises of quantitative freedom, these concerns are relevant only, insofar as can be expected to have a positive bottom-line impact. In many cases, however, the business case of responsibility-inspired policies becomes clear, if at all, only years after they have been implemented. For the perspective of qualitative freedom, instead, this does not constitute a problem, as it is directed from the outset to assess critically the implicit value dimensions of both economics and the economy in terms of universally preferable options.

In short, while qualitative freedom theory affords us "imprecise truths" through a close inspection of the variegated—and often normative—motives that inspire people's use of their economic autonomy, the mono-dimensional logic of quantitative liberty theories is blind to these factors. It gives us "precise error," instead, in that it offers an impressively rigorous analysis, albeit not of people's use of freedom in the real *conditio humana* but in the fictitious world of the *homo economicus*. These contrary epistemological tendencies manifest themselves in divergent practical orientations for economic ethics. The two notions of freedom have, unsurprisingly, a contrary impact on organizational life, the understanding of the role of the firm, strategy formulation, corporate governance structures, leadership styles, and corporate culture, as we will discuss now.

Let us compare the impact on *corporate strategy* first. Quantitative freedom is, we saw, built on the notion of option maximization. Freedom is accordingly defined against a limiting factor, a person, or an institution (e.g. the state) and the actors' inherent striving is to maximize their options against these limiting entities. The strategy for such individuals is to maximize his or her arbitrary interests and minimize interference. On an organizational level this notion translates into an ambition to maximize, most often in terms of aggregated utility or wealth. Shareholder value has long been the prevailing objective function, as it satisfies the need for simplicity and heeds the call for actionable decision support.

In contrast, qualitative freedom endorses limits and aims at a balance of diverse but equally desirable outcomes. Central to the notion of qualitative freedom is the discourse-based process of valuing outcomes in terms of the quality of freedom for all. This process rejects imperatives for the maximization of any one single objective. The universal ambition of qualitative freedom requires rather that multiple objectives be harmonized. Qualitative freedom endorses a *satisficing* strategy. The qualitative notion is hence inherently directed to a shared value creation process (Rangan et al. 2007; Sharp Paine 2003).

Proponents of shareholder theory, however, view aiming at a balance of multiple objectives as an illegal assault on the quantitative freedom to do business in the name and interest of the stockholders (Friedman 1962). Others argue technically that there has to be a single objective for the firm (Sundaram et al. 2004), otherwise one could not purposefully manage it, with the result that a firm so governed "will be handicapped in the competition for survival" (Jensen 2002). Everyday evidence, though, suggests the opposite: Firms often prosper precisely because of their commitments to ethical goals, whereas evidence mounts that the maximization of a single objective, such as shareholder value is detrimental, both *within* the firm with a view to rising conflict costs as without, that is in regard to increasing levels of negative social and environmental externalities created by such corporations.

Since the idea of *qualitative* freedom is premised on a relational concept of autonomy, it turns against shareholder theory and its postulate of but a single objective function. Qualitative freedom instead endorses the view of stakeholder theory that the modern corporation functions best oriented at a balance of interests and claims. Conceptions such as stakeholder value creation (Charreaux and Desbrières 2001; Freeman et al. 2004), shared value creation (Sharp Paine 2003), or well-being creation (Pirson and Langer 2015) are therefore in line with this notion. These management theories do not value the liberty of a special interest group over the freedom of the rest of humanity, and yet satisfy the need for actionable decision support at the managerial level. From the perspective of qualitative freedom it is, for instance, not at all clear that the corporate *freedom to* do business as firms see fit, must always win out against citizens' claims to a *freedom from* an increasing economic colonialization of their lives.

Similar conclusions can be drawn for *corporate governance*, as the different notions of freedom also entail different concepts of the human being as an economic agent. The quantitative view is based on the *homo economicus*, a rational utility maximizer, who will act opportunistically if that increases financial gain and so leads to more options. The governance notions in the quantitative understanding of freedom are consequently in line with *principal/agent theory* (Jensen 1999). Governance mechanisms would accordingly need to focus on creating an environment where opportunistic, self-serving agents are in check so that they cannot harm the implementation of whatever goal the organization intends to fulfill (Eisenhardt 1989; Fama 1980).

Principal/agent-theory views individuals as self-serving, extrinsically motivated, and mainly aiming at fulfilling lower-order needs, such as financial safety (Davis et al. 1997; Donaldson and Davis 1991). By definition, they only loosely identify with values and prioritize short-term gains over the long-term goals; checks and balances have to be in place to guard against opportunistic behavior. These assumptions, however, may well operate as self-fulfilling prophecies and create increased opportunistic behavior (Argyris 1964, 1973a; Davis et al. 1997; Nguyen-Huy 2000). Where agency theory meets increased level of opportunism, it will resort to an increase in the dose of the medicine it prescribes: trying to fend off that opportunism with ever more intrusive checks and balances. Not surprisingly, this can lead to downward spiral effects, undermining discretional freedom of both "principals" and "agents" as a result. With a view to recent corporate scandals that seem to validate these concerns, ever more scholars are questioning the assumption of the appropriateness of mapping and managing economic behavior along these lines (Brickson 2007; DiTomaso et al. 2003; Ghoshal 2005; Mintzberg et al. 2002).

Quantitative concepts of freedom, in short, suffer from self-defeating assumptions that contribute to an erosion of trust, a culture of opportunism, and eventually less personal freedom in corporations. In contrast, the qualitative notion views people as inherently communal individuals. On this view, people are optimizers who manifest their personal freedom in accord with their social relations. Their relations are largely based on trust and therefore do not always require external controls to function. Governance theories based on positive assumptions about human beings, such as *stewardship theory*, mesh well with the notion of qualitative freedom. On its view, individuals follow internally endorsed limits of agency and regard the personal assumption of responsibility as part and parcel of their concept of freedom (Davis et al. 1997). Stewardship theory presupposes, for example, intrinsically motivated human beings driven also by higher-order needs such as self-actualization (Argyris 1973b).

Employees, looked at from this angle, can be expected to demonstrate a high level of value commitment as well as a clear focus on the long-term results. Actors who define themselves through their social relations automatically assume multiple objectives and intend to balance potentially diverging interests. Stewardship theory thus proposes optimizing or satisficing strategies while directing corporate governance toward managerial support of the employee (Donaldson and Davis 1991; Macus 2002). Control mechanisms instead are deemed detrimental to employee motivation and performance (Donaldson et al. 1991; Muth and Donaldson 1998).

The two notions of liberty manifest themselves also in different *leadership styles*. Various concepts of leadership have been discussed over the last decades such as authoritarian versus participatory (e.g. Army 1973; Lewin 1935), transactional versus transformational (e.g. Bass and Avolio 1994; Burns 1978), and *laissez-faire* versus self-management-oriented leadership styles (Army 1973; Bass 1998; Manz 1986; Manz and Sims 1987). The most significant congruence between the dichotomy of quantitative and qualitative freedom surely lies with the concepts of transactional versus transformational leadership styles.

Transactional leadership conforms to the concept of quantitative freedom. Transactional leaders are involved in constant negotiation and barter with followers. They clarify goals and desired outcomes to ensure compliance and reward followers for their achievements, mainly through monetary rewards (Army 1973; Bass 1998). Transactional leaders appeal to extrinsic motivations and install multiple controls against opportunistic followers (Bass et al. 1994a). In the context of transactional leadership, the ethicality of the leaders' goals and the means by which they are achieved are of little relevance; they are in themselves an expression of economic liberty and thus not scrutinized.

The qualitative view of freedom, however, tends to endorse a participative and relationally oriented leadership style aiming at the transformation and self-actualization of followers. Transformational leaders are often ethically motivated; they inspire rather than incentivize their followers and aim for the personal growth of their followers. They lead through being convincing and by pursuing goals worthy of support. The freedoms of the leader and of the followers are seen as intrinsically linked. When leadership degenerates to a point where the leaders treat the followers merely as means to ends (pursuit of power, profit, or prestige) and not, at the same time, as ends in themselves, the qualitative meaning of freedom is compromised (Bowie 1999; Stroud 2002).

Also a close fit with the theory of qualitative freedom are self-management-oriented leadership styles (Manz and Sims 1993; Politis 2001), as these theories do not make a strict distinction between leaders and followers but rather advocate for the responsibility of all and the dominance of no-one. Collective decision processes will still require coordination, and the mechanisms of representative and participative decision-making will continue to be employed but—and this is crucial—the coordination function must be seen as merely a temporarily assigned role.

Last, not least, let us take *corporate culture* into consideration. In the logic of quantitative freedom, based on the transactional, individualistic, and maximizing characterization of the individual, organizations will endorse a rather linear, mechanistic, and closed corporate culture. Internally, such transactional cultures are based on contractual relationships. All job assignments are explicitly spelled out along with conditions of employment, disciplinary codes, and benefit structures. Stories, rites, jargon, values, assumptions, and reinforcement systems all depend on setting a price. Internally, the organization is a marketplace comprised of individuals in which reward is contingent on performance. Employees work as independently as possible from their colleagues. Cooperation depends on negotiations, not a quest for solving problems, or a common mission. Externally, transactional cultures aim to manage and manipulate their environments. Uncontrolled change is viewed as a threat, as it interferes with the optimal implementation of the maximization paradigm. Organizations formed in this mold attempt to transform the environment in an adversarial and competitive manner (Collier and Esteban 1999: 174).

In contrast, organizational cultures guided by notions of qualitative freedom are based on a common, oftentimes moral purpose, shared by most, perhaps all members. Relationships are viewed as interdependent and commitments are long-term oriented. Norms are created based on the common purpose and are continuously developed. The need for formal agreements and controls is low. The overall organizational structure is typically flexible, adaptive, informal, and dynamic, endorsing both inside and outside critique as inspiration for action. Through continuous discourse, stakeholders are engaged and actively influence the organizational development. Whereas an orientation strictly along the lines of quantitative freedom alone fosters attitudes in management that brings it in conflict with the values held outside the corporation, the idea of qualitative freedom affirms from the outset that individual and corporate liberties have to be coordinated with the overall needs of society. For that reason, the idea of qualitative freedom proves more amenable to integrate the multifarious social, cultural, and environmental challenges that business has to meet.

In sum, quantitative freedom theories endorse transactional cultures (Bass et al. 1994a) and corporate identities that are oriented strictly toward the individual (Brickson 2005). Qualitative notions of freedom support transformational corporate cultures which are communally oriented (Brickson 2007). As a consequence, through qualitative freedom, the quest for reasonable standards of economic fairness and ecological sustainability can be brought into harmony with the objective functions of corporations, while under the auspices of quantitative freedom these goals conflict with the corporate mindset. This outcome tips the scales very much in favor of the concept of qualitative liberty. How well a given theory integrates the natural and social contexts of freedom (via sustainability criteria, the internalization of negative externalities, etc.) is the litmus test of economic ethics.

4.4 Lessons Learned

If one were faithful to the neoclassical creed of quasi-natural laws forcing firms through competition into maximizing their profits, how would managers be able to exercise anything deserving of the name of freedom? And why call them "decision-makers" and not computers, if all they do is follow maximization algorithms? Yet, sure enough, managerial freedom does exist in practice. It manifests itself by deviations of management from the imperatives of short-term profit maximization—for institutional reasons (such as a firm's preference for liquidity, sustainable demand, and growth) and for personal motives (such as greed or, more palatable, the pursuit of prestige through meeting societal demands), too (Galbraith 1967).

Given this factual autonomy of managers, there are no cogent moral reasons for firms not to make a responsible use of their freedoms. Which is why it does not surprise that each corporate scandal brings about a questioning of the corporate "license to operate" (e.g. Brickson 2007; Sharp Paine 2003). The deleterious effects of shareholder capitalism on society and nature (Hart 2005; Jackson and Nelson 2004) time and again cast doubt on whether the current scope of corporate liberty ought to be maintained (Bakan 2004; DiPiazza 2002; DiTomaso et al. 2003).

Rather than rejecting altogether the idea of freedom as the normative and factual basis of modern economies, it seems advisable to rethink the theoretical foundations that made the link between free markets and free societies seem so inevitable. From Immanuel Kant we could learn that to declare for freedom does not at all mean to refrain from responsibility. Liberty, Kant teaches, is not license but is intrinsically related to notions of duty and virtue. Since freedom is not simply a natural product but a political and cultural construct, we must conceptualize freedom as an intrinsically social form of moral autonomy. Freedom is ours to claim, insofar as we treat everyone as deserving a life in dignified autonomy. Not individual particularities but our shared status of personhood justifies everyone's entitlements to liberty; it would be a contradiction, therefore, to deny others what we claim for ourselves. We must, consequently, use our freedom with deference to the liberties of all.

Moreover, the idea of freedom is not opposed but linked to the quest for "the good." There is no conflict between the liberal and the teleological paradigm, or, at least, not an inevitable one. Kant eradicates certain illiberal tendencies from the ambit of virtue theory: in a free society, the "perfection of others" is not our business, he argues. We must not forcefully interfere with the lives of those who do not agree with our conceptions of "the good"; the end does not justify the means; coercion is legitimate only in order to protect or restore freedom. Nonetheless, we are bound to act virtuously and respect the dignity of every human being in all our dealings.

Clashes between both doctrines can be avoided when—cognizant of the many divergent worldviews and ideologies embraced by different groups of humanity—we attempt the union of either from the platform of liberty. Teleological concepts are often *exclusive* and fail to respect as equals those who do not share their ultimate goals. Freedom, on the contrary, is an *inclusive* idea. One must not adhere to any one particular liberal creed in order to desire and deserve respect for one's personal autonomy.

If we conceptualize liberty along the lines of the idea of qualitative freedom, we recognize that wholly different conceptions of "the good" can be accepted as legitimate specifications of freedom's quest to manifest its own responsibility. This is why we distinguished between the formal *idea* of qualitative freedom and the various avenues (*concepts*) of its material realization. Purely quantitative notions of freedom, however, they tend to force upon the world a "one size fits all" maximization paradigm that closes any and all space for cultural specificity. The perspective of qualitative freedom better serves us here as it allows for the following distinction: between insisting *that* the quality of our freedoms be taken seriously and declaring *which* liberties should be promoted above others in a given context.

This abstract verdict has concrete implications for management practice. Oriented at quantitative freedom, management models based on the *homo economicus*-model and *principal/agent*-theory, fall victim to self-fulfilling prophecies and enhance the opportunistic behavior they aim to extirpate and "force" management to curtail the discretional freedom of workers ever more. With the eclipse of their *freedom*, however, the employees' sense of *responsibility* also wanes: a downward spiral is being set into motion.

In contrast, the idea of qualitative freedom treats humans as social beings capable of critical reflection and moral preference transformation. Management concepts (like stewardship theory) that align with the ideas of qualitative freedom prod us to see both employees and managers as persons who *want* to take on social, moral, and ecological responsibilities. Organizational cultures guided by notions of qualitative freedom articulate consequently a common purpose; and norms and goals are continuously being revised in light of this common purpose. Stakeholders are seen as essential for the thriving of the organization and are thus empowered to influence its development.

While firms under the spell of quantitative freedom see *independence* by trying to minimize the impact of outside demands, for example through lobbying or shirking, companies directed by notions of qualitative freedom embrace their social *interdependence* and thus seek out societal responsibilities. The morale of this story is both obvious and urgent: If we do not wish to confine business ethics to the role of the eternal naysayer to "business as usual," we need to align it with models of qualitative instead of quantitative freedom. For decades, though, economic research has been dominated by quantitative conceptions of freedom (Austrian economics, Chicago School of Economics, etc.). It is high time, therefore, to give instead the alternative notion of qualitative freedom (as espoused e.g. by economists John Kenneth Galbraith or Amartya Sen) a chance since it offers a more balanced view of business and society, capable of embracing social justice, ecological sustainability, and the rights of future generations.

To repeat, whereas theories of quantitative freedom view moral purposes as outward impositions bringing about a *minus* in the options at hand, on the qualitative view, freedom is incomplete without a normative orientation at its very own responsibility. As a consequence, qualitative freedom is not opposed to teleological considerations but views them as a potential *bonum*. Morally good options are not seen to reduce but to articulate the notion of responsible autonomy at the heart of the idea of qualitative freedom. Freedom, qualitatively understood, is internally directed to integrate the normative goals teleological theories promulgate. Thus the liberal paradigm can integrate the ethical tenets of teleological theories, insofar as these do not militate against liberty.

According to the liberal paradigm, it is the task of *individuals* to emancipate themselves from self-incurred dependencies. But the idea of qualitative freedom lets us also see the task of the *community* to liberate and empower individuals from dependencies, which individuals can neither evade nor avoid. By understanding that liberty encompasses the duty and obligation—the responsibility—to empower everyone to live an autonomous life in dignity, qualitative freedom links personal liberty to universal freedom. *Per se*, qualitative freedom is not a local or national idea, but rather a cosmopolitan idea; an idea that does not exclude anybody, but includes everybody. For this reason, the idea of qualitative freedom must be the cornerstone of economic ethics in the age of globality (Dierksmeier 2011a).

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CHAPTER 5

Toward a Humanistic Paradigm?

Abstract This chapter tries to advance the present state of economic ethics by merging the insights of the teleological and liberal traditions into a "humanistic paradigm." This paradigm is characterized by the foundational status of human dignity for all economic relationships. But is there a conceptual form of the notion of dignity that reconciles the unity and the diversity of humanity's normative aspirations? As bedrock for intercultural dialogue and cooperation the principle of human dignity can serve us, if and when its specification is entrusted to participatory processes open to all concerned. This project is advanced by the fact that, over the centuries, a substantial ethical consensus across temporal and cultural divides has already been reached. From the cosmopolitan foundation of this "global ethic," the outlines of a discipline of "humanistic management," devoted to social, moral, and ecological sustainability, become visible. Last, but not least, business models of *Social Entrepreneurship* are studied as exemplars for the humanistic management model.

Keywords Human nature • Dignity • Global ethics • Humanistic consensus • Cosmopolitanism

We have traversed much intellectual territory up to this point of our cognitive journey where, at the juncture of the teleological paradigm and the liberal paradigm, we begin to scout for a humanistic path that continues

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either trajectory. In this chapter, we see how the idea of *human dignity* comes to define the humanistic perspective and presents us with a *pars pro toto* exemplar for the unification of the strength of both the teleological quest for the good and the proceduralism of the liberal paradigm.

By repositioning the human being at the center of economics, the humanistic paradigm restores the “old normal” of economics. After all, the majority of economic authors throughout the centuries pondered about how through business and the economy conditions favorable to social welfare, personal well-being, and moral betterment could be advanced. For most economic thinkers, these questions ought to be answered with reference to conceptions of human nature and its inherent needs. Different times and cultural backgrounds have, however, given rise to diverging notions of human nature. These contrasting understandings may easily lead us into confusion or allow for too vacuous or arbitrary an interpretation of human nature to be operational in business contexts and management education. It is essential, therefore, that the humanistic paradigm is directed by a principle with firm contours whose essential significance is undisputed.

When probing for one such principle, the principle of *human dignity* suggests itself, since it ranks as the supreme value in many cultures and in numerous ethical systems of the recent past. In light of human dignity, lesser goods were ranked hierarchically according to their respective superiority or inferiority so that, eventually, they could be pursued in a systematically ordered fashion. Yet how is it that people from different cultural backgrounds came to an agreement about the meaning of the idea of human dignity; an agreement trenchant enough to orient managerial practice? How can we reconstruct their overlapping consensus? Can a firm conceptual core of the idea of human dignity be identified lest an excessively wide scope of meaning prohibits identifying certain policies as either suitable or unsuitable? These are the questions to be addressed in this chapter.

5.1 From Premodern to Modern Conceptions of Dignity

Various metaphysical systems in Antiquity and the Middle Ages scrutinized human nature, and dwelled namely on the striking tension between its (normatively asserted) internal dignity and its (empirically observed) external vulnerability. Common to these positions was the capture of the value intrinsic to human life by examining what makes the human being special and how human capabilities differ from those of other life forms.

Throughout Greek philosophy the view prevailed that human rationality is what provides practical orientation for the proper conduct of one's life. The dignity of the human being lies, consequently, in self-mastery according to the faculty of reason. While animals are seen as slaves to their instincts and environments, humans can transform their outward surroundings just as well as their personal habits and inward desires, if consistently guided by sound ratiocination. Most antique philosophers, however, predicated human dignity on the *actual* use human beings make of their rational capacities and converged in a dim view of the intellectual talents (and thus the dignity) of the masses, women, and foreigners (Ashley 1941). Rational self-mastery was, in their eyes, an option only for very few individuals; most people need outwardly enforced discipline in their lives in order to lead a dignified life. The wise had to lead the unwise; if need be, against the latter's will.

With the Roman Stoics this decidedly elitist concept of dignity began to change. To them, a life correctly lived is in harmony with the laws of nature and (well-ordered) society. Reason serves humanity as the ultimate guide, and a triumph of provident reason over imprudent passions is seen as possible for anyone, man or woman, Roman or foreigner. Therein lies an important *universalistic* trait. Stoic philosophy advocates a cosmopolitan humanism, open, in principle, to everyone (Forschner 1981). Yet in order to free one's mind to the extent necessary, individuals have to avail themselves of an education wide and deep enough to overcome the biases of their surroundings. In other words, there are demanding cultural preconditions to acquire dignity, and dignity is not easily attained. As a function of social respect, earned through honorable living according to the strictures of reason, dignity, though theoretically available to all, is practically attained only by a very few (Holloway 2008).

Herein we grasp a common thread in Greek and Roman theories on dignity: its *conditional* nature; dignity had to be earned. Whereas dignity, as a potential, lay within the nature of the human being as such, its actualization was owed to contingent subjective achievements. The conditional aspect of the notion of human dignity was only superseded by medieval Jewish, Christian, and Muslim theology. According to biblical revelation (e.g. Gen 1, 26; Div. 83, 54.4, 74), every man and every woman is created in the image of God (*imago dei*), and thus *unconditionally* affirmed by their creator.

Amended by Church Fathers and the works of Thomas Aquinas (1225–1274), this conception became the bedrock for a conception of human dignity that encompassed *every* person, regardless of their achievements. Rationality, irrespective of its actual use, differentiates humans from animals and so marks out humanity's elevated status (Duffy and Gambatese 1999). The human being *as such* has a dignity that neither stems from, nor is dependent on human actions. The significant gain of this position, that is the unconditional ascription of dignity to all, came at a cost, however. Whereas preceding positions often arrived at their notions about the uniqueness of human dignity by comparison with the (observable) features of animals, the theological conception is based on likening humanity to its (invisible) Creator. The theological approach makes human dignity thus dependent on premises that one may or may not share. Consequently, the edifice stands and falls with the firmness of one's faith; for today's pluralistic societies, comprised of non-believers as well as believers, such a foundation of the principle of dignity is not sufficient.

An attempt to arrive at a more independent foundation of human dignity was advanced by the Renaissance thinker Giovanni Pico della Mirandola (1463–1494). In his famous speech on the dignity of man (*Oratio de hominis dignitate*), he argued for the dignity of the human being neither through comparisons with animal life, nor with God. Instead he aimed to capture the dignity of human life itself (Trinkaus 1999). For Pico della Mirandola, what defines human nature is freedom. Willingly or not, each human being is the former and maker (*plastes et fictor*) of itself. People decide who they become and thus define themselves by the choices they make.

In our reconstruction of Kant's ethics as an eminent pillar of "the liberal paradigm" we had already seen how, similarly, the notion of moral autonomy becomes the basis for human dignity. Humanity is called to protect the capacity of the human being to define its own ends, *potentially* but not always *actually*, in the pursuit of a moral life (Dierksmeier 2015). Thus we enter a genuinely modern phase of theorizing, where the values and virtues of business ethics are derived from the autonomy of human life (Timmermann 2008).

Later, the existentialist philosopher Jean-Paul Sartre (1905–1980) intensified this viewpoint. Sartre used the formula that *existence precedes essence* to express that human beings cannot live without continually making choices, which, over time, determine the way they live and who they are. The actuality of the lived existence eventually comes to define the essence of the human being, and not, as antique and medieval thinking suggested, *vice versa* (McBride 1997). This turn away from an allegedly predetermined, given nature to the self-determined freedom of human life, is typical of the modern debate on dignity; and it is plausible. No matter the use people make of their freedom to redesign themselves, the sheer fact that their very existence is at least in part a realization of such designs does indeed bestow upon humanity a unique status.

The methodological advantage of taking individual *freedom*—rather than ideas about the nature of God or human nature—as the foundation for human dignity is patent: its self-standing, independent, and undisputable foundation in the very autonomy individuals experience. People can refuse to believe in metaphysical ideas, but few would deny experiencing themselves as free. Moreover, even an outright rejection of the conception of freedom—as, say, but a noxious Western, imperialist construct—demonstrates the centrality of freedom to human life. The act of negating any idea, including the idea of freedom, is premised on—and thus confirms—the very faculty for self-determination at issue here (Dierksmeier 2016).

What does the principle on dignity-based-on-autonomy carry out for economic ethics? Some straightforward ethical mandates for firms seem to follow immediately from, for example rejecting the terminology of human capital or human resources (Sen 1985) in favor of human relations and human capabilities (Boselie 2010). Some scholars advocate for a thoroughgoing turn toward stakeholder-models in business based upon Kantian respect for human autonomy. They argue that the best way to respect personal dignity is to involve people in the decisions that concern them (Bowie 1999). Those, who hold a stake in the dealings of a firm, should have a say in their decision-making. Consequently, one should assure the active participation and, where impossible, at least the passive representation of all concerned in questions of strategy and governance (Turnbull 1994). Also, the idea of stakeholder democracy extends from organizational behavior to the public realm and encourages us to rethink market designs and economic policy in the light of human dignity (Ellerman 1992).

When we ask more comprehensively, however, how businesses could treat dignity not merely as one value among many but as the overarching principle of economic ethics in light of which management should be taught and practiced, we need to do more than impose moral limits on conventional corporate strategies. Rather, a more general adjustment of many roles in business might be called for. In order to be reinstated into the system of economic interactions as active subjects, people would need to be liberated from their theoretical as well as practical role as passive objects. Human beings ought never to be accounted for as mere cost factors or labor suppliers, that is, as secondary factors in an economy geared for other primary goals. Rather human needs have to be the first and foremost objective of business (Maclagan 2003). And this has to begin with how business and economics are taught (Greenwood 2002). If we want humanistic business practices, we need a management education defined by the idea of human dignity.

Already in the early nineteenth century, several scholars took up the cause of a genuinely "humanistic education"; foremost among them were Friedrich Schiller (1759–1805), Friedrich Immanuel Niethammer (1766–1848), Karl Christian Friedrich Krause (1781–1832), Friedrich Schleiermacher (1768–1834) and Friedrich Wilhelm Josef Schelling (1775–1854). Their debate on the purpose and methods of higher education informed Wilhelm von Humboldt (1767–1835) and his design of the renowned university concept that to date carries his name (Hübner 1983). They distinguished between a *humanistic* and *functionalistic* understanding of education (Weisz 2005). Against conceiving of education as a mere means to worldly success, these philosophers saw its true value of giving expression to human dignity. Education was to help people to perfect their understanding in order to foster a sense of the intrinsic worth of human life (Schiller 1790).

From this humanistic education program followed the aspiration to direct academic studies so that each discipline would not only contribute to its own narrow field but also to the broader goal of forming better human beings and of improving society at large. Each and every academic subject was to honor the free human mind by conveying to students the skills requisite for critical self-reflection and a moral comprehension of their respective subject (von Schelling and Glockner 1954). Such intellectual penetration and evaluation of the contribution of their studies to the whole of human society demands the development of critical reflective faculties. These capacities, students could only hone, it was argued, when self-guided, independent research became a central part of their schedules; hence Humboldt's advocacy for the *unity of research and teaching* (Spitta 2006).

Today again, demands for an education that parses skills for autonomous, critical thinking as well as sensitivity for moral concerns are being advanced (Benner 1990). In management education, for instance, we face a pedagogical landscape that has long since been oblivious of its social obligations and of the deeper purposes of higher learning (Amann 2011). As the intellectual realization of the importance of human dignity furthers or hinders its practical realization, an ethical reorientation of management pedagogy—a curriculum change—is needed, for example, promoted by the *Principles for Responsible Management Education* (PRME) (for a good introduction see Laasch and Conaway 2014).

5.2 Unity and Difference: A Global Ethic?

How can we make an interculturally valid use of ethical ideas? In the present age of globalization, the multicultural premises of our social life demand theories capable of meeting postmodern and relativistic challenges to ethical rationales. Are there really values with normative guidance for the normative orientation of business across national and cultural divides? Obviously, all universal conceptions, such as the notions of human rights and human dignity, were generated in specific cultural contexts, and when elaborating them, scholars rarely draw on African or Asian philosophies (cf. Kresse 2011). The overwhelming majority employs conceptual means from the tradition of *Western* philosophy—as we, too, did in previous sections. To some, such a predominance of one tradition straightaway discredits the effort of establishing globally acceptable norms. How, so the argument goes, can regional values justify universal postulates? Why should the philosophy of the West dominate the rest? Do we not thus betray in procedure what we affirm in substance, that is a truly global approach to ethics?

Concern and sensitivity for cultural difference are laudable. Yet such concern has no common cause with ethical relativism (Welsch 1988). Relativist views confuse the "genesis" and the "validity" of philosophical arguments. Although the debate over human rights and human dignity is largely influenced by European sources, this does not *per se* restrict the universal validity of these concepts. Rather, in appealing to *human reason* in general, philosophical positions from everywhere in the world aim for interpersonal plausibility across all cultural boundaries. In intent, at least, these are not Western but cosmopolitan notions.

One can reject, of course, the underlying idea that there is but *one* human reason operative in all human beings. Yet this rejection itself makes also use of a description of the nature of (albeit now a culturally fractured) human reason. In either case, the debate *which* conception of rationality—*pro* or *contra* the unity of human reason—merits our eventual approval therefore takes place before the court of—reason (Welsch 1988). And there, both parties may fail to corroborate their claims with convincing arguments. The merits of each approach can only be assessed *after* a critical examination of the theories at hand, which analysis draws on the self-critical potentials of human rationality. There is thus no way to resolve the debate on the cultural relativity of rational standards other than through the employment of the very capacities of critical human reasoning, whose universal character relativists so staunchly deny. And where *reasoning* is the means of making moral claims, it does not seem unfair to declare *reason* the ultimate arbiter.

Ethical relativists, to avoid self-contradiction, can coherently defend their position only by refraining from claiming any interpersonal validity for their arguments—which, in the interest of consistency, some also do. Their arguments, however, then cannot any longer *legitimate* but only *explain* their positions. Their propositions cease to be arguments and become mere *psychological* declarations rather than *philosophical* demonstrations. Hence nothing compels anyone to follow the relativistic train of their thoughts rather than, say, rationality conceptions of a more comprehensive scope. By insulating against the winds of criticism, the relativists isolate also themselves from the very oxygen they need in order to spread the fire of their convictions.

Moreover, since only some—neither most, nor even many—non-Western philosophers downright reject universal principles, ethical relativism also does injustice to those, who explicitly wish to be part of the cosmopolitan project. Philosophers such as Amartya Sen demand that non-Western thinkers be taken seriously when they argue against (restrictive) values of their own region and in favor of (more emancipating) global principles (Sen 2006). Such dissenting voices can be seen as a *de facto* contradiction to the assumption that different contexts necessarily breed diverging views. Cultural stereotypes must not let us overlook advocates of the idea of human dignity abroad. Worse than the imperialistic imposition of rights to protect human dignity is, surely, a relativistic acquiescence in their oppression.

Since Western philosophy forever aimed to speak to *all* human beings, we are well advised not to focus on the narrow geographical realm of its origins but rather on the broad scope of the ideas it tries to promulgate. The answers of Western philosophers to questions about the nature and meaning of human freedom, responsibility, and dignity need, of course, not uncritically be worshiped as capstones of human wisdom. Yet for a global debate about the values of human life, they could be seen as important stepping-stones.

Establishing the humanist paradigm on a conception of qualitative freedom means to welcome that different people in dissimilar contexts will find distinctive ways of how to give expression to the idea of human dignity. From these deliberations follows a *proceduralist* imperative for *participative* decision-making as both a *normative* touchstone and a *pragmatic* yardstick for ethical decision-making on values in business and society. In light of these reflections, it cannot be overestimated that in 1948 the United Nations issued the *Universal Declaration of Human Rights*, based on a comprehensive consensus of peoples all over the globe. According to its preamble, the enumerated rights are anchored in the "recognition of the inherent dignity" of each and every human being. In the understanding of the many nations behind this declaration, the notion of dignity appears not as a marker of cultural imperialism but as the very principle by which to combat it.

While itself not a legally binding declaration, most of its tenets have been taken up again in the *International Covenant on Civil and Political Rights*, which since 1976 constitutes legal obligations for all signatories. In this covenant, the international community spells out many practical implications of its affirmation of human rights, again expressly "recognizing that these rights derive from the inherent dignity of the human person." Together, these declarations suggest that indeed there is a "humanistic consensus" (Dierksmeier 2011), underlying otherwise diverging cultural and religious backgrounds.

Research concurs with this notion of such a humanistic consensus. The question how the extremes of moral relativism on the one hand and an arbitrary dogmatization of certain norms on the other can be avoided was the motive behind the *Global Ethic Project*, launched by Hans Küng at the University of Tübingen, Germany. In numerous studies, Küng and his team have shown that the central values affirmed in these international documents overlap with a set of norms that can be derived from all spiritual and secular traditions of humanity as a truly "global ethic" (Küng 1991). Besides publishing comprehensive studies regarding the ethical and normative commonalities between Judaism (Küng and Bowden 1992), Christianity (Küng 1995), Islam (Küng 2007), Daoism and Confucianism (Küng 2002) as well as the Indian traditions of Hinduism, Buddhism, and Jainism (Schlensog 2006), Hans Küng and his team of researchers have also found a strong convergence of core values in the fields of intercultural literature (Kuschel 2011) and philosophy (Schönherr-Mann 2008, 2010). Based on this body of work, Hans Küng promulgated the first comprehensive account of standards, values, ideals and goals shared by all of human kind.

According to Küng's *Global Ethic Project*, the *humanistic consensus* consists of two principles and four values endorsed by all peoples of all cultural and religious traditions: (1) the Golden Rule of Reciprocity ("*Do unto others what you would have others do unto you*"); (2) the Principle of Humanity (that every human being must be treated humanely, not inhumanely); (3) nonviolence and respect for life; (4) solidarity and a just economic order; (5) tolerance and truthfulness, and (6) equal rights or partnership between men and women. Despite the cultural and religious diversity in the world and the cultural particularisms of each civilization, these basic ethical elements have surfaced time and again. One can find the tenets of a global ethic expressed in the analects of Confucius, written five centuries before Christ, in the teachings of Patañjali, the compiler of the Yoga Sutras in the Buddhist canon, as well as in the scriptures of the three monotheistic traditions.

The "*Global Ethic Project*" seeks to emphasize the commonalities between the world's various religious and cultural traditions, rather than focusing on their differences. But it is not aiming at an artificially abstract ethical super-structure breeding uniformity and conformity, thwarting the richness, variety, and intricacy of the world's many traditions. Because of this dual nature—respect for difference on one hand, coupled with an emphasis on the boundaries of divergence in light of shared principles and values on the other—the "*Global Ethic Project*" is a paragon for what the humanist paradigm is all about: respecting human dignity by a procedural rather than substantial translation of ethics into practice.

The integrative potential of the "*Global Ethic Project*" has often been recognized. In 1993, the *Parliament of World Religions* in Chicago released a "Declaration toward a Global Ethic" that is largely based on the core values of the "*Global Ethic Project*." Also inspired by the work of Hans Küng was the "*Universal Declaration of Human Responsibilities*," issued in 1997 by the *InterAction Council of Former Heads of States*. Likewise, in 2009, at a business ethics symposium at the UN Headquarters, a manifest, titled *Global Economic Ethic – Consequences for Global Businesses*, was launched in support of the efforts of the UN Global Compact for sustainable business practices (see http://www.globaleconomicethic.org).

These texts and the transcultural ethical agreements that led to them show: If, regional and cultural variations notwithstanding, we find a similar set of values centered on the dignity and inviolability of human life in the wisdom traditions and teachings of China and India, in the philosophies of Northern Europe and South America, as well as in the poetry and thought of African cultures (Hasselmann 2005), it must be legitimate to center current efforts at a reframing economic ethics on precisely these notions. In short, the "humanistic paradigm" is not an outward imposition but the consequent articulation of a frame of reference which human beings have, time and again, chosen for themselves.

The same holds true for the natural contexts of human life. From a cursory inspection of the history of Western humanistic philosophy one may come away with the impression that humanism and anthropocentrism go hand in hand. In matter of fact, though, there is no necessary link between the two conceptions. Their strong *historical correlation* does not result from a *systematic connection*. In matter of fact, the humanistic paradigm is not anthropocentric.

Here is why: Even biocentrists have to make "tough decisions" when the vivid interests of certain life-forms conflict. When making any real "trade-off" (e.g. by hindering predators killing their prey), biocentrists, too, are taking a stance on whose interests deserve priority. As far as we know, on earth only human beings can make such decisions in reference to reasons open to the scrutiny and criticism of others. As a consequence, the demands of biocentric theory can only be met through a *human* assessment of the inherent value of life forms and in relation to what we, as humans, know about life. Obviously, this scenario does not imply that those value judgments are necessarily self-serving. Instead, it is the very interest of every fair-minded ethicist that the human angle be so employed as to reduce any species-bound bias as far as possible. For this reason, the humanistic position, in and out of itself, transcends the anthropocentrism/biocentrism divide and might better be called "anthroporelational."

5.3 Applications to Business

The relevance of a cosmopolitan moral compass becomes especially patent in the economic sphere, where managers and decision-makers are regularly faced with far-reaching ethical dilemmas in multicultural settings. Globalized markets require a global economic ethic: a common vision of legitimate, just, and fair business practices that is validated by unifying values and norms and substantiated by a common practical experience. In order to reconcile the quest for normative unity with the desire for cultural diversity we established a conception of human dignity inherently linked to individual and collective freedom. The principle of human dignity thus shares in the *procedural* nature of the humanistic paradigm. For business this means that we can allow for divergence in *norm interpretation* and *norm application* without losing sight of the underlying convergence in *normative orientation*. A humanistic economic ethics would thus prioritize *procedural forms* over *substantive norms* and advocate *participatory* rather than excessively *paternalistic* ethical models.

To propose a global economic ethic premised on the idea of human dignity is, however, not the same as handing out a set of ready-to-use management tools with the promise that with these in hand the humanistic paradigm of economic ethics can unfailingly be converted from theory to practice. In fact, to do so would contradict the liberal and procedural essence of the modern notion of human dignity. If we are serious about the origin of human dignity in the idea of qualitative freedom, we must also make freedom the *method* by which the notion of dignity is turned into practical measures. From community to community and from culture to culture, different specifications of economic ethics might thus be called for. In the realm of business, for instance, each team and every firm must find their own specific means of fashioning appropriate tools for implementation that do justice to their specific circumstances about which little can be said by way of generalization.

Consider the *protection* and *promotion* of human dignity in business. While the *protection* of human dignity may be entrusted to the codes of *human rights* and certain compliance and CSR-programs with a decidedly global outlook, things get more complicated once the goal shifts to the *promotion* of human dignity. When global firms committed to this idea aim for the long-term *capability enhancement* of their rural stakeholders worldwide, this may require a variety of approaches. Holding fast to the *same* procedural mandate of enabling stakeholders to live a more dignified life, such corporations will have to employ *divergent* policies from culture to culture. This exemplifies how in this day and age economic ethics is not after *exact dictates* specific enough for each but after *structural mandates* inclusive enough for all.

Social Entrepreneurship is a case in point (for a good introduction see Elkington 2009). The concept of *Social Entrepreneurship* refers to firms experimenting with new business models in the pursuit of moral objectives. Social Entrepreneurs start with a vision of the good and invent novel business models—specific to the very natural or cultural context they operate in—to realize it. Typically, their profits are being reinvested to expand the business and its beneficial impact (Austin et al. 2006). Social Entrepreneurs "build the environments they need to succeed" (Elkington et al. 2008); for instance, by including customers from the so-called bottom of the pyramid into the economy and thus creating new markets (Seelos and Mair 2007). Or they are successful because of intensive community involvement, eliciting (and receiving) the voluntary cooperation of their stakeholders in order to realize socially or environmentally beneficial projects, reaping benefits from the positive repercussions of their good reputation, and wielding an unusually productive workforce: a handsome return for their oft quite intensive investments in human capabilities.

Social Entrepreneurs thus prove day-by-day that one can, indeed, do well by doing good, insofar as one makes doing good one's foremost strategic goal (von Kimakowitz et al. 2010).

As many Social Entrepreneurs are financially viable and at times make sizable profits, their example proffers an important cornerstone for a novel edifice of economics, built on the foundations of responsible human freedom. The profitability of Social Entrepreneurs can serve as *a fortiori* argument in favor of the financial feasibility of humanistic management in traditional firms: If even drastic deviations from profit-maximization schemes are not ruining the survival chances of business, conventional business might as well consider at least small movements into the self-same direction (Arena 2007). This also goes to show that the argument firms should act ethically only once the business case for such policies has been proven by means of standard economics as fallacious. Conventional economics can only prognosticate outcomes in the fictional world of *homines economici*, but the business case for business ethics lies in the real *conditio humana*. More colloquially put, the financial feasibility of ethical business models is no academic "pie in the sky"-scenario; rather, "the proof is in the pudding."

All managers must make decisions under uncertainty; only with hindsight can one determine which strategies prove successful. Insofar ethical entrepreneurs are no different from conventional CEOs. All other things equal, however, business models built on a holistic—that is also ethically informed—anthropology instead of on a reductionist one face better chances for success in practice. This is, in short, the *business case for business ethics*. Models including ethical dimensions are more life-like since they do not only capture *vices* (i.e. maximization of self-interest) but also *virtues*, not only egotistic but also altruistic motives. Realism assures relevance, and relevance improves the chances for success. The more precisely a model maps real human life, the stronger will be its heuristic and prognostic capacity. "The economy" is at its core, after all, but human beings dealing with one another. As a consequence, a *humanistic* economics is bound to be more accurate than a *mechanistic* one, not in spite of, but because of its ethical dimensions, as these are part and parcel of what it means to be human.

All the more important it is, therefore, that managers receive a training and formation that prepares them well to meet these challenges. The question, which principles orient *economic pedagogy* and *management education* ought thus to be at the forefront of academic interest in economic ethics. Although the *application* of ethical principles inevitably relies on appropriate individual *judgment*, what can be improved by generalized ethical theorizing are the mental models that inform it. Like lenses, such mental models give color and contour to what our mental eyes can perceive. Change such cognitive frames and you change someone's picture of the world. Whether people can spot a business case in a certain endeavor, for instance, depends much on the lenses through which they look. When people cannot imagine certain strategies to work on, they never try them out.

Mental models, in short, help or hinder humanistic management. For example, from the angle of the *homo economicus*-model a given business model may seem foolish which, however, appears as perfectly reasonable based on, say, the view of the human being as a *zoon politikon*, that is, as being "by nature social." It is high time, therefore, to reorient business theory away from fiction and toward the reality of human life. Instead of describing human behavior, against all empirical evidence, as determined by a narrow array of fixed preferences, the wide scope of human interests—including moral preferences—should be moved (back) into the center of management education. Since ethical concerns are of paramount interest for the everyday practice of management and corporate governance, they should also be adequately reflected in management education.

This shift from a uniform and substantial to a more procedural and diversity-affirming approach also entails a new role for economic ethics. Instead of serving as a modest corrective to "business as usual," economic ethics might become an active fount of inspiration for novel forms of business, thus transforming help to transmit what accounts for the success of *Social Entrepreneurs* into the curriculum of business education overall so as to foster *Social Intrapreneurship*, that is an emulation of the ethically motivated strategy innovation of *Social Entrepreneurs* within conventional firms. If we want business to be an agent for good, we must make "the good" central again in business education.

In sum, the economy is not a normatively neutral field, governed by technical rationality. Rather, once the elementary freedom of each economic actor (customer as well as manager, employer as well as employee, regulator as well as entrepreneur, shareholder as well as stakeholder) is *realized theoretically,* its *practical realization* can properly be investigated, taught, and managed. Instead of relegating ethical deliberations to the margins of the curriculum, we should—in reference to the foundational role that ethics plays in real life—allow for an ethical transformation of the *entire* realm of economics.

5.4 Lessons Learned

In real-life settings, understanding ethical *prescriptions* is inevitable for the correct *description* of economic agency. As the *possibility* of humanistic management results from the human *reality* of business, by becoming more humane, economics stands to become more realistic too. Since the criteria to evaluate economic goals rest ultimately on human freedom, economists should stay clear of a *technocratic* understanding of their discipline that beclouds the eminent ethical relevance of the choices governing the selection of methods and measurements in economic research. It is time for a new era of *democratic* economics, where economists make self-reflective use of their intellectual freedom and capacity to suggest alternatives to the factual as well as epistemic *status quo* (Sen 1999). Only an open discourse about the qualitative aims of society can legitimately define the quantitative goals of economic politics. Once economists acknowledge the societal function of their instruction, they can take on the social responsibility of their academic function.

As a consequence, the discipline of economics has to develop ethical literacy again. Economic ethics must hence be reframed from a marginal constraint to an integral and strategic dimension of economic theory simply because, bereft of ethics, economics is incomplete as well as incorrect. For centuries, ethical theories depended on concepts of human nature. Throughout the ages and across cultures, the understanding of human nature has, however, changed. Shifts in its presumed meaning forced alterations in moral attitudes. Transformations in metaphysics wrought changes also in economic ethics. Every attempt to formulate a static economic ethics once and for all, failed consequently—until it became clear that the solution lies in a dynamic conception of economic ethics premised on the very factor that drives societal and economic change: human freedom.

With the inception of the liberal paradigm ethics is no longer dependent on contestable beliefs but proceeds from a reflection on the universal experience of human freedom, based on which humanity's moral central creeds can effectively be defended. While philosophers explain the *validity* of the principle of human dignity, the "*Global Ethic Project*" highlights its *factuality*, that is that people all across the world indeed have forever endorsed a convergent set of basic values. On normative as well as on pragmatic grounds, therefore, it seems apposite to mold today's economic ethics according to the idea of qualitative freedom on which the humanistic paradigm rests.

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CHAPTER 6

Outlook

Abstract This chapter glances back at the path taken from antiquity to the present, garnering the lessons learned and offering an outlook onto how the emerging humanistic paradigm might contribute to the solution of present and future problems in the realm of moral, social, and ecological sustainability of business and the economy.

Keywords Humanistic management • Sustainability • Globality

This essay proceeded in a historical-systematic fashion and tracked the genesis of the very worldview from which management scholarship has to extricate itself at present. The text was organized through a *didactic dialectic*. It began with the Greek foundations of recorded economic thought (*oikonomia*). The reader was then *didactically* led from less to more complex notions to see the strengths of each of the major paradigms of economic thought before being introduced *dialectically* to their respective successor—up to and including the present one, the humanistic paradigm.

We took departure from a critique of the "mechanistic paradigm." The lesson learned was that management education today must transcend conceptual frameworks that obstruct both the intellectual and practical realization of managerial freedom and responsibility. Since one rarely solves problems with the very model that generates them, strong efforts to transform conventional economics have to be made.

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The next step in this direction was a closer look at the history of economic thought, which from Antiquity through the Middle Ages up to the Enlightenment was oriented at a "teleological paradigm." With reference to the works of Aristotle, Thomas Aquinas, and Adam Smith we showed that for centuries, ethics and economics, profits and principles, markets and morals were considered as complementary sides of one and the same coin. In certain aspects, their teachings for moderation (Aristotle), justice (Thomas), and empathy (Smith) are today as relevant as they were in their time.

What has changed from their era to ours, though, is that we can no longer derive ethical orientation directly from metaphysics. Today, we need an ethics commensurate to the pluralism of open societies and to the multicultural perspectives characteristic of the era of globality. As a consequence, in the chapter on "liberal paradigm" we appropriated the teachings from the past through the filter of individual freedom. The ethics of Immanuel Kant exemplified such freedom-based reconstructions. Since the idea of freedom lies at the heart of our present economic system, we investigated next how two contrary archetypes of freedom—*quantitative* and *qualitative*—lead us to divergent consequences in terms of organizational strategy, corporate governance, leadership, and corporate culture.

We showed how past conceptions of management (such as *principal/agent-theory*) are closely linked to the conception of quantitative freedom, which aims at a maximization of individual options. Yet this conception of freedom has striking shortcomings as it discourages efforts on behalf of social, ecological, or moral sustainability. Moreover, the concept of quantitative freedom fails to register that all freedoms are not alike.

For sound economic decision-making, however, it is imperative to discern between options that are more or less worthy of realization. Only an idea of freedom geared to such qualitative distinctions can provide actionable advice. Moreover, from the angle of qualitative freedom, we begin to realize the liberty of others not (only) as a *limit* of our own freedom, but (also) as its *aim*. Freedom, so to speak, is not given to us as an asset but rather as a task. Since neither markets nor nature ensures that everyone has at their disposal the preconditions for an autonomous life, the *demand* for individual freedom and the *promotion* of its general presuppositions must go hand in hand. Since freedom is granted to us insofar as everyone has a right to it, it follows that as long as there are human beings whose freedom is impaired, our own freedom remains imperfect.

The capacity of the idea of qualitative freedom to constrain individual liberty on behalf of the autonomy of all is also the conduit through which ethical tenets of the teleological ethics of the past can be conjoined with the liberal paradigm of modernity. What is more, from their merger arises what we have termed the humanistic paradigm, that is the approach to ethics from the very notion of human nature and its inherent dignity that humanity itself—represented in the creeds of all cultures, the religions and the philosophies of all ages—has proffered time and again.

The humanistic paradigm is both a descriptive and a prescriptive endeavor. It aims at a more accurate depiction of the role of ethics in the economy just as well as at an improved normative account of the values and virtues our economics and management education ought to adhere to. Humanistic management—as a theory of business expressive of the humanistic paradigm—seeks guidance in the humanities to gain insight into the human condition and develops a cultural sensitivity for the differences of human experiences. As a practice and academic discourse it seeks to understand, in a compassionate way, organizational realities from the point of view of the feeling, thinking, embodied human, of all hierarchical levels and social roles. At the root of the humanistic conception of business lies the conviction that from the freedom of each comes a responsibility for all. Economic autonomy can thus not be seen just as an entitlement for self-determination but must also comprise an obligation for self-commitment.

Humanistic management—as an ethical theory—holds fast to the notion that people everywhere owe unconditional respect to all other persons. Humanistic management hence aspires to use business as a means to the end of improving each and every individual's conditions and well-being in respect of their unconditional dignity. Individual liberty and cosmopolitan responsibility, rightly understood, presuppose one another. On this view, the voluntary and concerted actions of civil society, economic and state actors can overcome global problems if and when they are jointly oriented at a set of goals based on shared values and norms, a "Global Ethic." Acting from and with cosmopolitan responsibility legitimates rather than limits economic freedom. An economic system based on humanism and reinforced by global ethical standards holds human dignity, human flourishing, and respect for human life as central tenets, and aims to create conditions, which enable all humans to develop their capabilities and to live with dignity.

No one knows the future. Nobody can know whether the shift from a mechanistic to a humanistic paradigm desired by the members of the *Humanistic Management Network* will actually come about. The best way, however, to predict the future is to influence it, and so I wish to end this book by pointing out some sources that may help readers to do just that.

In recent years, we have seen a plethora of scholarly and political initiatives directed to changing the economic powers that be. Many of these endeavors are very promising, for example the work on the part of the *Institute for New Economic Thinking* (http://ineteconomics.org) and by the *International Student Initiative for Pluralism in Economics* (http://www.isipe.net).

My foremost sympathies lie, however, with the network that stands for the cause I have expounded here: the *Humanistic Management Network*. Readers can track the work of members of this network on its central website (http://www.humanetwork.org), through its *Facebook Group* (https://www.facebook.com/groups/humanisticmanagement/), on the website of the *Humanistic Management Center* (http://humanisticmanagement.org/cgi-bin/adframe/index.html), and on various other social media. For scholarly purposes, I recommend Palgrave Macmillan's book series *Humanism in Management*, where at this point of writing more than ten volumes have appeared on various aspects of humanistic management, from case studies collections via theoretical models up to conceptual works (http://www.palgraveconnect.com/pc/browse/listsubseries?subseries=Humanism+in+Business+Series&order_by=publish-date) as well as the *Humanistic Management Journal* (http://www.springer.com/social+sciences/applied+ethics/journal/41463) at Springer Press.

The *Humanistic Management Network* is a nonprofit organization and invites everyone to cooperate for a more life-conducive economy. The central tenets of the network can be gleaned from the following manifesto, published in 2014, with which I close this investigation, as it summarizes the main ideas and intentions of this book.

> The Humanistic Management Network defends human dignity in the face of its vulnerability. The dignity of the human being lies in her or his capacity to define, autonomously, the purpose of her or his existence. Since human autonomy realizes itself through social cooperation, economic relations and business activities can either foster or obstruct human life and well-being. Against the widespread objectification of human subjects into human resources, against the common instrumentalization of human beings into human capital and a mere means for profit, we uphold humanity as the ultimate end and key principle of all economic activity.

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C. Dierksmeier, *Reframing Economic Ethics*, Humanism in Business Series, DOI 10.1007/978-3-319-32300-8