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Ethics, morals and business. A brief intro to business ethics

This brief introduction aims to clarify the terms used most often throughout this course – ethics and morals – and to show how they relate to economic issues. It starts off with some general definitions of the terms we need to talk “business ethics” (part 1). It goes on to show that doing business is always embedded in a moral universe, and that economics is indeed a peculiar kind of ethics (part 2). It finally gives a first overview of ethical paradigms and theories, showing the many ways to judge, direct and justify what’s supposed to be a good decision – in business and other realms of life (part 3).

In the units that follow, we will get back to these ethical theories, discuss them in more detail and try to apply them to special issues and concrete cases.

1) What is Ethics and Morals?

The use of words is sometimes fuzzy. In colloquial speech, we may talk about something being more or less “ethical” or “moral” when we mean that it is the right or wrong thing to do, based on some shared basic understanding of what’s “good” and “bad” – or “evil”. Usually, this serves to articulate our *intuitive* approval or disapproval of certain deeds or motives. And usually, that’s all we want – and we don’t see much reason to split hairs.

However, if we start pondering about the very issue of “good” and “evil”, and if we want to reflect upon our moral intuitions, we actually start *talking ethics*: At that point, we need a little more clarity in our language. That’s why we start off with a quick and easy definition of the terms we will need most often during this course: ethics and morals.

Ethics

For a start, it can’t hurt to go back to the roots. Etymology (= the study of the origin of words) reveals that “ethics”

- 1) has roots in ancient Greek, whereas “morals” is of Roman/Latin origin.
- 2) refers to “*ēthikē*” (ἠθική), actually an *adjective* originally connected to *epistēmē* (ἐπιστήμη) to denote “ethical understanding”.
- 3) was derived from “*ēthos*” (ἦθος), meaning “character” or “disposition”, to be distinguished from “*ethos*” (ἔθος) which refers to customs, rites or habits – what Romans later used to call the “*mores*”.

So, while etymology doesn’t reveal us the “true meanings” of the words, it may give a first orientation. There’s actually no binding or clear-cut definition of the terms that covers all they contain and defines how they relate to each other. However, there’s some sort of convention that “ethics” refers to the *discipline* that describes, judges and directs human behaviour in terms of “good” and “evil” – and “morals” rather refers to given patterns, norms and rules of action which are the subject of ethical reflection. *At the risk of oversimplification, we could put it in a formula: Ethics is about morals, and morals is about actions.*

We all have acquired *moral intuitions* about what’s the right or wrong thing to do – and usually we feel no need to think about it.

While, originally, both terms were roughly synonymous, addressing patterns of human action, ethics has since come to be defined as the philosophical discipline that deals with morals.

Ethics is *practical philosophy*: It is about how we act – and how we should act.

In most general terms, then, ethics is that branch of philosophy that deals with human practice – that's why it is also sometimes called "*practical philosophy*". Other divisions of philosophy may be concerned with "being" (*ontology*), human existence (*existential philosophy*), with cognition/perception (*epistemology*) or thought (*logics*). Ethics may turn to these for justification. Its focus, however, is clearly on human action: Ethics is about how we act – and how we *should* act.

That's where ethics and economics overlap: Both deal with human practice & how to improve it.

Actually, it is on that very basic level where economics and ethics meet and clearly overlap: They are both concerned with human practice and how to improve it. Historically, economics used to be part of philosophy – it's actually been a "spin-off" from practical philosophy. With the *Enlightenment* and the rise of capitalism, however, economics „emancipated" itself from philosophy and religious dogma to become a self-conscious new scientific discipline, reflecting upon that sphere of society we call the economy.

Ethics is also moral philosophy: It's about analysing, judging and directing moral behaviour.

And ever since, there's been some kind of conflict of competence over certain questions or problems concerning the economy – we will get back to that in a second. In more specific terms, ethics is that branch of philosophy that deals with morals -- that's why it is also sometimes called "*moral philosophy*". As such, ethics is concerned with the analysis, judgement and direction of moral behaviour.

The relationship between ethics and morals is analogous to that between economics and the economy.

The relationship between ethics and morals is quite similar to the relationship between economics and the economy: Both these terms can be derived from the ancient Greek "oikos" for "house" or "household". Still nowadays we talk about a national or urban "household", which carries exactly this meaning. The "economy" – in very general terms – is about the regular, rational provision of goods, by way of production, distribution and consumption. "Economics", then, is the study of the economy: It is concerned with the analysis, judgement and direction of economic behaviour.

Morals

Morals has come to be defined as the sum of patterns, norms and rules of behaviour that exist in any given society.

Morals or morality is about the actual patterns, norms and rules of behaviour that do exist – side by side – in any given society. Other than "ethics", the term has its roots not in ancient Greek, but in Latin. While, etymologically, ethics and morals carry quite similar (similarly ambiguous) meanings, the *convention to identify ethics with the study of morals* may simply have to do with the fact that the one is considered to be older than the other.

"*O tempora, o mores!*" For generations, this has probably been the standard quote to bemoan the "moral decline" of society. It's credited to Cicero, who used it in his well known speech against Catilina, in 63 B. C. Actually, Cicero is also credited with having introduced *ēthikē* into Latin in the sense of "philosophia moralis" – the meaning we nowadays infer to it. "Mores" – the term which interests us here – is derived from Latin "mos", which actually carries the same, ambiguous range of meaning as *ēthikē*, denoting character, will, custom or rule.



"Mores" and the "moral sciences" In its original, descriptive meaning, "mores" has been one of the oldest sociological concepts to capture what was considered right and wrong, or moral, in human behaviour in a given society or community. Actually, the "moral statistics" developed in early 19th century by Belgian astronomer, mathematician and sociologist Adolphe Quételet has been called a progenitor of sociology: Here

for the first time – and then even more so in the works of Emile Durkheim, a sociological classic – there was an effort to investigate “immoral” (deviant or criminal) behaviour and correlate it with certain socio-demographic variables. The goal of these efforts was to unearth the hitherto hidden “moral fabric” of society – that new, *modern* thing that seemed to be kept together somehow, without any central moral authority like the one once possessed by the clerus, and despite economic and social disruptions brought about by the political and technological revolutions of the time.

Actually, “morale” still carries these meanings: In most general terms, it is about *motivation or will*. In that sense of the word, we talk about “employee morale”, “working morale” or even the “morale” of troops or sports teams, e. g.. More specifically, “morale” implies some sort of value judgement. What’s special about moral standards, generally, is that they are supposed to be serious, preferable, universal, impartial and emotional. They are about things that matter, that we value. And in fact, in most cases we feel some sort of *moral intuition* that tells us what’s the right thing to do. Sometimes, however, these subjective intuitions may seem grossly immoral to others, or in the light of ethical reflection.

To act “morally”, generally speaking, means to act in compliance with some norm or rule that’s being approved/held up by a social group. This usually implies some sort of positive and negative support or sanctions.

- “*Unmoral*” or “*immoral*” we call a behaviour that does *not* comply with some set of moral rules or norms.
- “*Amoral*” – and this may be new to you – we call behaviour that is not governed or hampered by any such moral considerations.

Moral standards are supposed to be serious, preferable, universal, impartial and emotional: They refer to things that we value.

Immoral acts do violate some moral standard, while *amoral* acts are supposed to be “beyond good and evil”.

How does moral behaviour relate to legal/“lawful” behaviour? Generally speaking, laws can be seen as a subset of moral norms of a more binding, institutionalized and objectified type. Their validity is “positive” and guaranteed, i. e. it is enforced by some sanctioning body such as the state.

Still, very often laws and morals are at odds, because what’s legal need not always be considered to be legitimate. Indeed, in many cases, laws are not sufficient to secure moral behaviour. In addition to that, if sanctions are rare or not too deterrent, abiding to the law (e. g. to pay one’s taxes) itself constitutes a basic moral claim.

Economic behaviour can be said to be “amoral” in that it is free from explicit *moral* considerations, even though they are still valid *outside* of the economic sphere, *limiting* economic behaviour in the sense of “guardrails”.

This disrespect of economic behaviour and economics for moral norms is the result of a historical process of *emancipation* of economic thinking from moral philosophy (see above). This process of “disembedding” of the economy from the social fabric, which goes hand in hand with a belief in economics as a hard natural science that makes no normative judgements, is actually one of the main sources of conflict and the reason for business ethics. On the other hand, of course, the “economic system”, even if it has developed its own institutions, norms and rules, is still part of society and linked to it in many ways.



Economic behaviour, theoretically, is supposed to be *amoral* – governed by “laws” of economics that supposedly do without moral man.

Moral Economy

Basically, every economy is embedded in what's been called a "*moral economy*". English historian E. P. Thompson coined this term when he investigated the conflict between newly installed free market policies and popular moral intuitions about what's good and just in economic transactions, as it broke out in early 19th century "hunger riots". Thompson showed that the outrage was not merely about empty stomachs, but about moral intuitions on economic affairs (Thompson 1971).

The "moral economy" is the sum total of our beliefs about what's morally good and right, or bad and unjust in an economy.

Economic sociology more recently reintroduced the "moral economy" as a term that denotes the moral universe that businesses are situated in (Granovetter 1994). Generally speaking, the "moral economy" is about our moral intuitions which we bring to bear when we make up our minds about what's going on around us: what's good and right, or bad and unjust.

Actually, there are plenty of examples where this moral context of business reveals itself. In its most visible form, this is the case with *outrage* about things that seem unjust, when people seem to get things they do not deserve (or do not get what they deserve) or whenever someone exploits others for personal gain.

Outrage about injustice, illegitimate gain or exploitation is a basic expression of this moral economy.



Moral outrage and the moral economy of society Actually, moral outrage has both been an *indicator* that something's wrong (with the economy or with politics) and an *initiator* for change. Think of some recent examples for such moral outrage: With his best-selling book *Indignez-vous! (Time for Outrage!)*, written at the age of 92, Stéphane Hessel, a former resistance fighter and survivor of the *Holocaust*, confirmed and inspired the views of millions of people around the globe (Hessel 2011). The *Occupy movement* has brought hundreds of thousands of people worldwide on the streets, criticizing the "greed" of bankers, bank bailouts and a generally unjust distribution of wealth in an economy that – according to the movement – benefits the richest 1% of the population. The "anti-globalization movement" has been around since the early 1990s, criticizing neo-liberal globalization and the collateral damage on societies and nature in its wake. More recently, so-called "shit storms", "flash mobs" and other spontaneous outbreaks of collective outrage have been made effective through new social media. Actually, we encounter such outrage about particular "immoral" business practices almost on a daily basis. Topics of particular concern in this respect include:*

- lay-offs ("redundancies"), discrimination and intrusions of privacy at the workplace (LABOUR)
- exploitation of people and nature for profit, bribery and unfair trade (SOURCING)
- deceiving consumers, price gouging, intruding the public space (MARKETING)
- a "greed is great mentality" and resource-sapping consumerism (CONSUMPTION)
- "greedy" traders and bankers, bank bailouts, creative accounting, externalization (CONTROLLING)
- narrow shareholder value management (STAKEHOLDERS)
- depletion of natural resources (SUSTAINABILITY)

* The terms in capital letters refer to relevant fields of management or economic behaviour that we are going to deal with in-depth in the following units.

In all these cases, *moral outrage* signals that there's a conflict between our moral intuitions and economic reality, between what's deemed to be economically sound and morally justifiable. This sheds light on the fact that the economy is still very much embedded in a moral universe.

Moral outrage reveals a conflict between our moral intuitions and economic reality.

Actually, that's the very result of many studies and experiments that were carried out by "behavioural economics", a socio-psychological subdiscipline of economics. One of its most striking findings is the so-called "inequity aversion": When offered an exchange which favoured the other party (to different degrees), probands usually rejected the transaction at a certain point – even if this meant that they themselves went away empty-handed. Their moral intuition, the feeling that they were eventually taken to the cleaners, as it were, proved stronger than the promise of a quick gain (Alvard 2004).

Behavioural economics shows that most people indeed do not act strictly economically, but morally rational.

Behavioural economists therefore claim their findings to belie the micro-economic model of *homo oeconomicus*, the "economic man": a theoretical creature that's supposed to be fully and perfectly informed, have "exogenous", strictly ordered and relatively stable preferences, and be a self-interested utility maximizer. Actually, would we really be modelled after this *homunculus*, it's hard to imagine that a human society, let alone an economy would have come to existence in the first place .

2) What do ethics and morals have to do with business?

There are actually two ways in which this question may be answered – and this points to two different views of ethics, as the discipline that deals with morals. First, ethics may look at the actual state of morals: It tries to describe and to analyse what role morality plays in our everyday lives. That's called *descriptive ethics*. Secondly, it may try to make reasoned judgements and give directions about what's deemed morally right and wrong. That's called *normative ethics* ("ethics proper").

Ethics may describe and analyse what role morality plays in the economy – and it may judge and direct economic behaviour.

Descriptive ethics

Descriptive ethics deals with the question what role "morality" actually plays in the economy – *immoral* behaviour which we just discussed, but also *moral* behaviour. It may well be that "economics" does not deal with morality – that's not its business. Moral considerations, seen that way, are "exogenous", outside of its realm of competence. Still, contrary to the belief that business is just *amoral* or even *immoral* or that moral norms would only interfere with business, limit it, *morals actually play an important role for the efficient functioning of an economy*. There are indeed many moral aspects and factors that play a role in economic behaviour – in economies and businesses alike.

Descriptive ethics looks at the role moral norms actually play in an economy – notably as a form of "social capital" that allows for efficient economies & businesses.

Morals and economies

In recent decades, efforts have been made to implant economic systems and impose structural reforms on countries meant to induce some sort of self-actuating economic recovery and growth. Repeatedly, the lesson had to be learnt that, indeed, the efficient functioning of economic (and other) institutions is not independent of its cultural context, and that economic theory itself is actually often ignorant of that context and terribly misleading about real effects. Rather, the success of an economic system and its institutions is very much contingent on cultural factors: specific histories, customs, traditions, social structure, and not least moral norms (Easterly 2002).

Economies are indeed very much contingent on cultural – including moral – factors.

Not only are certain norms highly culturally contingent – they have developed in close affinity with the economic system to which they belong (cf. virtues). Above all: Moral

norms – if they are sufficiently binding and effectively sanctionable – make economic behaviour more predictable and calculable. Thus, they make economic transactions easier, less costly and sometimes even possible. Just think of a society of outright egoists with no moral scruples whatsoever (a. k. a. *homines oeconomici*). To paraphrase Margaret Thatcher – in a slightly different, hypothetical way: In such a world, there would really be “no such thing as society” – but likely no economy either.

Seen this way, moral norms, trust, “economic virtues” and the *committed relationships* (loyalty, honesty, reciprocity, cooperation) they incur constitute an *important economic resource*: This has been called “social capital”, denoting immaterial resources that can be mobilized through networks of social relationships. They are even more important where legal provisions are lacking, difficult to enforce or very costly.

Generalized moral norms, trust and economic virtues constitute an important “social capital” that an economy can draw on.

Examples of such “functional” moral norms include:

- a commitment to fulfil contracts (“*pacta sunt servanda*”)
- a businessman’s “sense of honour”
- networks of relationships (inside and between organizations) built on loyalty, friendship, care, reciprocity, cooperation and solidarity
- consumers’ “moral preferences”
- compliance/adherence to the law

Actually, there’s also a downside to this: All the positive effects drawn up in this list hold when these norms are “generalized”, meaning that they are not in principle limited to a narrow circle of individuals – in such cases, the effect may be adverse:

Where moral norms, trust and virtues are limited to an exclusive circle, this may turn out to be inefficient – and actually immoral as well.

- mafia-style organizations: They rest on high levels of trust, respect and loyalty – but only within a family or clan, while others are treated mainly as means for this exclusive circle to reach its goals.
- nepotism, favouritism, old boys networks: These phenomena imply favours among friends that actually discriminate against outsiders.
- bribery: This is about making a donation to somebody in the hope/expectation of some reciprocal favour, which does injustice to those that play by the rules and actually undermines rule conformity/compliance.
- cartels, price fixing: In these cases, firms stick together to form “oligopolies”, limiting competition and reaping high profits, at the cost of consumers, other competitors and the economy in general.

You see, what’s “moral” in one setting may be “immoral” in another one. These are the peculiar cases when behaviour which we would otherwise call “moral” may yield undesirable results in a complex economy, because it serves some constituents at the expense of others: Prices go up, competitors are driven out of the market, although they may produce better products and services and be more efficient, the distribution of wealth is unjust and so on.

What’s “moral” (and efficient) in one setting may turn out to be immoral (and inefficient) in another

In that way, sociology, history and behavioural economics (and other newer paradigms in economics) have consistently shown that the image of economics as a discipline bereft of values is delusive. The economy is actually embedded in a moral universe on which it depends, upon which it feeds, and which it interacts with, changes and can exploit. Without morals, therefore, there's no efficient, no legitimate business.

Descriptive ethics shows that the image of economics as a discipline bereft of values is delusive.

Morals and businesses

This not only holds for economies or markets – it holds for individual businesses as well. Ethics and economics, morals and business are not two realms completely apart from each other. There's no *necessary* contradiction between them. Good management from a bigger perspective is actually morally good management: It should be *responsible to the moral economy of which it is part*.

In individual businesses, good management is accountable to the moral economy of a society.

It has become quite fashionable lately to talk of business ethics or *Corporate Social Responsibility (CSR)* in terms of a “business case” (Porter und Kramer 2011). This proposition implies that doing the morally right thing would eventually pay: It is a good business decision, it says, and does not even imply an ethical decision. Examples that are given to prove this point include

The “business case” of ethics implies that doing the morally right thing eventually pays.

- eco-efficient processes and devices, promising to save money by saving resources
- early movers that have been quite successful in “sustainable niches”
- the booming market for “sustainable” (green, fair, regional, low-emission) products
- the good performance of *SRI* (socially responsible investments)

The business case argument for business ethics, however, should not be falsely understood as a simple identification in the sense that morality sells or being successful means that you did everything right. Of course, there may also be a business case for corporate irresponsibility, insofar as it may prove economically rational to externalize costs, to exploit people and nature, and to overuse resources.

There's also a business case for irresponsible business – and it's likely more promising still.

The “win-win” proposition between morals and business rather suggests that in a market economy, where it is becoming increasingly important and transparent what companies do, how they earn their money and so on, good management has to do good and well – *be efficient and legitimate at the same time*.

Still, in highly developed economies there's a growing expectation that companies do good – and a growing market that allows some of them to do well as well.

This is where “ethics” as the discipline that reflects upon morals/morality comes in: It is not *per se* about direction, advice or persuasion how you *should* act, but rather about knowledge, reflection and understanding – not simply because there is no right or wrong (in some cases this is actually not easy to determine), but because understanding *why* and deciding yourself is always better than just doing what you are told.

What ethics – and this course – is eventually about.

The course shall enable you

- to analyse, understand and resolve moral issues,
- identify moral issues in particular fields of management & economic behaviour and
- to understand various contexts in which moral issues arise.

“Ethical theory” is basically there to help you

- to clarify your position, understand why you think this or that way, make your intuitions explicit,
- to learn, to see things differently, to make more sovereign decisions,
- to inform your decisions and take responsibility for them – not merely to justify (rationalize) them ex-post on ethical grounds and
- to lead better lives, by widening your horizon, practice your virtues, ease your consciousness, do something that's meaningful.

Normative ethics

That's what's usually being referred to as ethics (“ethics proper”), even though it's only one part of it. There's “descriptive ethics” which we have been dealing with in part 1. There's something like “explicative ethics” which takes a “meta perspective”, reflecting upon different normative ethical theories or paradigms. That's the perspective we will take in the remainder of the unit.

Normative ethics is basically concerned with the evaluation, justification and direction of behaviour based on some notion of what's good and bad (or evil). Ethics is the discipline that reflects upon these issues. And it does this from different angles and through different lenses.

I will try to present you some of these to give you a first impression of what an ethical argument involves. This will necessarily be somewhat superficial – this is indeed a vast field. However, we will get back to the different arguments repeatedly in our later course units and discuss them in more detail, and with concrete examples.

In an effort to structure this field of ethical theories, I will distinguish between theories that focus on *intentions*, *interactions* or *implications*. This seems sufficiently rough for a start. It could certainly be done differently, as you may find out yourself whenever you browse through any two or more textbooks on business ethics. However, it is a starting point that draws on conventional categories and presents them in a different and (hopefully) compelling way.

Intentions

“Intentions” focuses on individual *motives* of agents. These reasons for action have to be good in themselves, unconditionally. *Morally good actions are those that are done for morally good reasons: to do good or at least to comply with some moral standard.*

This perspective contains what's usually covered by the term “deontological” ethics, derived from the Greek *δέον* (*deon*), meaning something that has to be done, no matter what. It obviously implies a sense of duty and virtue, and unconditional respect for moral rules, rights and needs. Examples include:

- follow the ten commandments
- obey the law

Normative ethics (“ethics proper”) is about judging and directing behaviour – from different aspects & through different lenses.

Roughly, arguments of normative ethics can be said to focus either on *intentions*, *implications* or *interactions*.

An intentions-based ethics focuses on agents' motives which have to be good in themselves – in extreme cases *at all cost*.

- do not lie
- respect the moral or human rights of others
- care for your next of kin
- kill the infidel

In short, this conception of ethics is about doing something because it is the right thing to do. While this is a basic trait of *Kant's "categorical imperative"*, based on the free use of human reason and will, on respect for human dignity and on what we call "virtue" (we get back to that in a second), this position may also lead to some sort of "moral absolutism", claiming the rigorous fulfilment of certain moral principles *at all cost*. That's the kind of attitude we know from religious fundamentalists or other strong believers in the unconditional goodness of some system of faith, combined with a Manichaeian world view of good and evil.

This perspective on ethics may be seen as the oldest or most conventional one. It is about following a rule, either dictated by authority or – in its modern form – human reason.

Implications

"Implications" focuses on the *collective consequences of actions*. These results of actions have to be good – not the agents' reasons, the "morality" of which is not relevant or conditional upon these ends. Morally good actions are those that yield good outcomes: It's about doing something because it's supposedly instrumental to the best outcome for everybody involved.

This perspective contains what's usually referred to as "teleological" (or "consequentialist") ethics, derived from the ancient Greek *τέλος (telos)*, meaning *some sort of goal or purpose*. It implies a sense for the hidden, sometimes wondrous, "emergent" effects of human actions, an understanding that some good may come even from bad intentions. Actually, this change of perspective has been referred to as a "paradigm change" in the development of modern ethics. Examples include:

- lie if it helps
- self-interest, even greed is ethically neutral in that it promotes general welfare
- charity may be immoral when it keeps people dependent
- make and take bribes if it saves jobs

In short, this conception of ethics is about doing something because it (supposedly) yields good results. While this is a basic trait of what we call soberness and pragmatism and which we impute to "entrepreneurship" as a driving force of economic development, this position may also justify whatever is necessary to increase some imaginary "common good", implying that *the end justifies the means*.

Still, this perspective on ethics may be seen as the typically *modern* one. It is about freely promoting one's interests, "improving one's lot", without infringing upon the interests of others – and certainly without having to care about some traditional (often hypocritical) canons of morality.

An implications-based ethics focuses on outcomes which have to be good, irrespective of motives – in extreme cases justifying all means.

Actually, the imaginary good end (such as “salvation”, growth etc.) may be functionally similar to an ethical duty – that’s why I will discuss the different ethical principles later without further reference to these paradigms: They can be viewed and argued either way.

Interactions

“Interactions” focuses on the *interpersonal processes involved in decisions*. It is about *how* decisions are made, which makes them “good”. Morally good decisions are those that have been derived “the right way”, i. e. based on some sort of *dialogue* with all those that should have a say: because they are affected by the decision, because they have to carry it out, or because they just know much about what's at stake.

This perspective implies what I would like to refer to as “dialogical” ethics, derived from ancient Greek *διάλογος* (*diálogos*), *meaning conversation, discourse or: dialogue*.

The *ethical* value of the actions that are derived this way is neither judged by the motives of those involved nor by the actual consequences of their decisions, but by the way they are made. The decisions reached may not be the best ones, as regards motives or ends, but they are ideally a consensus that all those involved can live with.

What’s behind this assumption is a certain “relationist” perspective that holds that there are different interests and perspectives that may make one decision seem “best” -- but that in an ideal situation where not power, but the “best argument” or viewpoint wins the trick, this is then the best decision: in terms of responsibility and sustainability (compared to monological, authoritarian or paternalistic decisions), and in terms of effectiveness of such decisions. Examples include:

- democratic decisions
- stakeholder dialogue
- those that are affected should have a say

This perspective may be seen as the typically *post-modern* one. It acknowledges that there are many different ethical principles one may call upon. To derive at the best possible decision, it is therefore necessary to commit oneself to an open dialogue of equals with those that should have a say.

Actually, this is also the perspective I will try to convey to you throughout this course. The fact that there are many different views, that (in many a case) none will be absolutely right or best in terms of determining what's good and right, does not imply that “*anything goes*”. Such a “relativist” or “nihilist” position would actually be only one more aspect to bring to bear in an ethical discourse – and as we will see in a later unit, “ethical relativism” has some merits, if only to save us from ethical ethnocentrism and bigotry.

3) Virtues and Principles. Values beyond Value

So, this sketch may give you a first hint at what different ethical paradigms typically focus on. I will now try to sort out the most central “values” (virtues and principles) that these paradigms draw upon to make their claims. These include

An interactions-based ethics focuses on the interpersonal processes involved in decision-making– in extreme cases, this focus on the way leads nowhere.

- “*virtues*” that relate to a person’s character and define what makes a “good person”, such as prudence, courage, moderation, but also so-called “business virtues”, including fidelity, diligence or thrift.
- “*principles*” that relate to properties of relationships and define what makes a “good society”, such as freedom, welfare, justice, rights, care, responsibility, sustainability and democracy.

Virtues relate to a person’s character, while principles relate to properties of relationships.

Virtues

Virtues refer to agents. They are seen as desirable properties of a person’s *character*. Virtues have been the subject of ethical reflection ever since, and they remained in its focus for long. Even if many ethical questions in today’s highly complex societies relate to relationships between individuals, the cultivation of character may still be a worthwhile aspiration in many ways.

Virtues define good traits of character, inasmuch they are deemed valuable and necessary to lead a good life.

There are traditional virtues that practically all cultures have tried to define, hold up and cultivate, because they seemed to be necessary to lead a good life. The western concept of virtue can be traced back to what the ancient Greeks called ἀρετή (*areté*) and the Romans called *virtus*: Both referred to some state of particular capability or excellence, usually in relation to heroism or aristocracy. The term “virtuous”, denoting the excellent mastership of some task (think of musicians or artists in general), reminds of this general meaning.

Both terms also carried a double meaning which we still find today:

- A person may *have virtue* (in the singular form), meaning that he or she is virtuous as a whole, has integrity, unity of character.
- A person may *have virtues* (in the plural form), meaning that she or he has many good qualities, which may however not have much ethical weight.

As every era has its particular virtues, today’s conception of virtue does not only draw on ancient sources, but also on the Christian tradition and on concepts of virtue that have been promoted by the bourgeoisie, in its rise to political and economic predominance. This long history has left us a big heritage of different, primary and secondary “virtues”:

We have inherited various catalogues of virtues, the bourgeois “business virtues” being most relevant for economic activity.

- *the classical “cardinal virtues”*, including prudence/sagacity, justice, courage and moderation – classical prerequisites to live the good life
- *Christian virtues*, including faith, hope and love (charity), and those seven virtues defined in opposition to capital sins, such as humility, charity, chastity, patience, temperance and benevolence
- *special “estate” virtues* pertaining to different groups of persons, such as soldiers, men and women, knights or businessmen
- *civic/bourgeois or “business virtues”* such as fidelity, diligence, obedience, discipline, sense of duty, timeliness, reliability, orderliness, correctness, politeness, cleanliness and so on, which are usually referred to as “secondary virtues”, because they do not refer to some conception of the good life, but instead to economic success and an orderly and efficient functioning of a society and its economy. Indeed, insofar as

they mark bourgeois emancipation and economic autonomy, these virtues were often ad odds with the aristocracy's virtues of the court: *noblesse oblige* and the belief that “work is demeaning”.

So, what we call “virtues” is actually a result of historical, sometimes revolutionary, sometimes even ironical developments: The bourgeois “work ethos”, e. g., has its roots (or at least a deep affinity) in religious belief. That's what sociologist Max Weber meant to reconstruct in his seminal work on the *Protestant Ethic and the Spirit of Capitalism* (Weber 1930). In its course, former vices such as greed (*avaritia*) were actually being rehabilitated, insofar as they seemed “natural” and above all “useful” for the creation of value and general welfare (Hirschman 1987).

While business virtues have a particular role to play in a capitalist economy, virtue/s ethics in general remains an important aspect of ethical theory. It focuses on a person's character and its formation, well beyond our capacity as economic actors. In order for an economy and business to flourish, it needs virtuous people. And for virtue to flourish, it has to take root in an accomodating “moral climate”. For this to happen, our business relationships need to be good as well – that's what we turn to now.

Principles

Principles do not refer to traits of character that one should aspire to, but to properties that characterize relationships between people: They are meant to define what a good society should look like.

Principles define good relationships between people, inasmuch they are deemed to contribute to a good society.

While “virtue ethics” is not hard to identify with the first type of ethical paradigms defined earlier (the one focusing on *intentions*), the same is not true for most ethical principles. As mentioned earlier, practically all of these principles may either be seen as motives or as ends of actions – or else as a subject of an ethical dialogue.

At best, it is possible to identify some affinities between them: Respect for the rights and freedom of persons, e. g., or caring for concrete people will usually be conceived as motives of actions to be realized *immediately*, and not left to chance. On the contrary, a principle such as general welfare is usually defined in terms of an “unintended”, emergent outcome of self-interested market behaviour.

Some principles, thus, have relatively close affinities with either a deontological, a teleological or a dialogical perspective – but indeed the main difference is whether they are aspired to directly or indirectly, *vis à vis* concrete people or an abstract market or society. This said, I would like to just *sketch* some of the core principles of ethical theory – a much more in-depth discussion of at least some of them will follow in later course units.

Rights

When talking about rights from an ethical perspective, it is important to distinguish between “moral rights” that are usually bound to specific duties and so-called “human rights” that people are endowed with unconditionally, *qua birth*.

Human rights denote “natural” innate entitlements of human beings, rights that are supposed to be unconditional, universal, equal, non-destructible and independent of any

single political institution or practice. As such, human rights may serve as an important minimum foundation for corporate ethics, notably in international business, and especially when governments don't seem to care about basic rights of their citizens. On the other hand, the concept of human rights clearly is a western creation, and it has been and is still being exported to other countries in the process of globalization. This is the issue with "ethical imperialism" vs. "ethical relativism", when different cultures and their respective ethical traditions interfere with each other in a global economy (cf. chapter 2).

While *human rights* are said to be unconditional, *moral rights* are usually bound to particular duties.

Moral rights on the other hand are associated with duties and the pursuit of individual, legitimate interests. Moral rights do certainly overlap with legal rights: Yet, they cover what's *legitimate*, which usually goes beyond and sometimes may even be at odds with what's barely *legal*. Moral rights are usually endowed to particular groups of persons:

- the rights of consumers to information, and to decide for themselves (consumer sovereignty)
- the rights of employees to be treated fairly
- the rights of entrepreneurs to do their business

Freedom

Freedom has been a core principle and motto of modern humanist and Enlightenment philosophy. One of its basic claims has been to build a new, better human society based on the free use of human reason – actually a revolutionary idea that implied claims for freedom of expression (speech and press), freedom to associate and freedom from torture and servitude. Thus, claims for freedom obviously go into two different directions:

Freedom is at the core of both economic and political liberalism, the former being much more radical when it comes to the free, unhampered use of private property.

- *negative freedom*, i. e. *freedom from* traditional privileges and bonds, authoritarian and paternalistic rules, e. g.
- *positive freedom*, i. e. *freedom to* develop one's capabilities, improve one's lot and decide for oneself, e. g.

Seen this way, it comes clear that debates on freedom and (positive and negative) rights have been closely linked ever since. Claims for liberty or specific liberties may be further distinguished based on their focus and radicality:

- *a libertarian view* that focuses on the right to private property and its free, unhampered use as the basis of a free and just society. Roughly speaking, this radical view is the basis of *economic liberalism* and "free market" ideology.
- *a liberal view* that focuses on securing civic liberties by way of limiting some of them and monopolizing them in the hand of the state, the "res publica". Roughly speaking, this republican view is the basis of *political liberalism*, favouring checks and balances and mixed economies.

For classical economic liberalism, the free pursuit of one's economic interests lies at the heart of a functioning, efficient market economy: If everyone is free to follow their interests, and nobody is able to exert power on any other market player, so the assumption, the ideal "perfectly competitive free market" will serve the needs, respect the rights and do justice to people better than any other economic system would (cf. chapter 4). This liberal utopia –

often pictured in Adam Smith's magical image of an “invisible hand” that would harmonize competing interests into a common good – still serves as the common point of reference for free market campaigners.

Welfare

Welfare is the second pillar of a capitalist market economy – beside freedom. While liberalism focuses on *freedom* in its own right, utilitarianism focuses on the complementary concept of *welfare*, roughly speaking. Freedom and welfare, in this view, belong together, promising a self-regulating, anti-authoritarian setting for the efficient creation of value: As an ideal, this system *reproduces* freedom and utility on a regular, sustained basis. Both liberalism and utilitarianism, thus, can be safely counted among the consequentialist party of ethical theories. Both claim that the free use of one's capabilities, in the pursuit of happiness, will eventually promote the welfare of all.

Welfare is the second,
utilitarian pillar of
capitalist market
economy.

Both liberalism and utilitarianism, therefore, accounted for the “ethical revolution” that came with a shift of focus from virtues to vices and their potential value for the progress of society. The ideas behind this paradigm shift, however, had not been entirely new. Welfare, broadly speaking, is just another word for happiness – and that's what utilitarianism is actually all about (even if its somewhat special conception may be seen as typically modern and bourgeois). Such an “eudaemonian” view (from the ancient Greek *εὐδαιμονία*, most often translated as felicity or happiness) can actually be traced back to most of ancient Greek philosophy, most notably Aristotle. Most radically, and in the context of a secular and atomist world view, it had been expressed as a guiding principle in Epicurean philosophy. With the Renaissance and the loss of authority of Christian ethics in its wake, however, eudaemonism was again slowly gaining ground in Europe. Utilitarianism, therefore, may be seen as a distant, modern heir of this ancient tradition (Ebbesmeyer et al. 2007).

The critique put forward against Epicureans, i. e. that they were overly, even immorally *hedonistic* (= “lust-seeking”), may actually be repeated with a little more right against utilitarians. Indeed, “utility” signifies a more technical, and also a more materialist conception of happiness -- at least in the classical formulation of Jeremy Bentham (Nasher 2008). In an utterly narrow conception of happiness as material value to be measured, counted, accumulated and aggregated, it has come to be the paradigmatic forerunner of “welfare indices” such as the GDP – with all its shortcomings.

Still, the acid test for morally good behaviour from a utilitarian's perspective is not merely the increase of one's own, personal happiness (however this may be defined), but whether this promises to increase the happiness (or welfare) of the biggest number. In that respect, utilitarianism actually proves to be a very rigorous theory of ethics: Every choice of action that prevents you from doing something more valuable for society is actually immoral, according to this view.

What welfare – apart from an abstract conception of *efficiency* which allows no one to be disadvantaged by a different allocation of resources – does not talk about is how it is to be *distributed*. That's what *justice* is all about.

Justice

Justice has been a central claim of ethics ever since. No wonder that there are loads of different conceptions of what justice should mean. As we saw earlier, we usually bring to bear an intuitive sense of justice into every economic transaction: It's part of the moral economy. If something is seen to be unjust, this may incur moral outrage.

A look at current debates – on management bonuses, gender pay gaps and the like – reveals that justice is indeed a big issue in economic life. And what is seen to be just or unjust is subject to permanent change. There are different ways to bring order into the vast field of debates on justice. For one, justice may focus on different aspects of economic activity, such as

- starting conditions, where justice means *equal opportunities* (non-discrimination).
- exchanges and processes, where justice means *reciprocity* (just rewards).
- the distribution of goods and services, where justice means to respect various rights (cf. below).

The just distribution of the value created in an society has been an issue for hot debates for millennia, ranging from Aristotle's still authoritative thoughts on the matter, over scholastic arguments on “just prices” to the so-called “social question”: the old conflict between capital and labour that today is usually negotiated between industry and union representatives, based not only on questions of justice, but also on prospective effects on welfare.

Actually, there are many different criteria one could apply in order to determine what's just or unjust in the distribution of goods and services. Decisions may be based on

- basic needs or universal rights (entitlements)
- contribution (meritocratic)
- contracts (fairness)
- equal rights (egalitarian)
- chance (random)
- privilege (accrued rights)
- compensation (corrective, retributive)
- sustainability (intergenerational)

What is just or unjust, however, usually cannot be resolved by simply pointing at an abstract principle. The following, more recent debates hold that morally good decisions need to be based firmly in human relationships.

Care

The principle of care has been introduced into the recent ethical discussion by feminist thinkers like Carol Gilligan. It claims to be based on many of our immediate moral impulses and intuitions pertaining to special responsibilities to special people (Velasquez 2011).

Justice is at the core of most contemporary and historical debates on business ethics – whenever it comes to the distribution of opportunities and outcomes.

Care is about particular responsibilities to particular people – an ethics that's relevant when dealing with immediate stakeholders.

A feminist ethics of care is explicitly opposed to abstract intellectual claims of what's morally right or wrong. Seen this way, ethics is not about following supposedly universal or impartial principles, but about attending and responding to the particular good of individual personal relationships. An ethics of care holds that we should value our relationships, preserve and nurture them and care for the people that depend on us.

Care in that sense is never aloof and detached, but always concrete in the act of “caring for somebody particular”. It is basically about relationships that may be characterized by compassion, concern, love, friendship and kindness. In business ethics, such an ethics of care will probably be most relevant when it comes to dealing with employees, colleagues, customers and other immediate stakeholders to which we may entertain relationships based on loyalty – actually, as we saw earlier, this may turn out to be an important social capital for a business.

Responsibility

Responsibility has again gained popularity with the proliferation of concepts such as “Corporate Social Responsibility”. As an ethical term, “responsibility” is actually relatively young – it hadn't been used until the early nineteenth century (Bayertz 1995). Actually, it is not about any particular ethical principle (such as the ones presented earlier), but about whether and how some morally bad acts can be rightly *attributed* to somebody – and, therefore, whether and how this person has to *answer for* these acts.

Responsibility is about answering for the consequences of one's actions – even if they were not intended.

Other than duty or guilt, responsibility focuses on the *consequences of one's actions* – even if one had not wanted or been able to foresee these consequences. So, it is basically about being *accountable* for the outcomes of one's actions. The growing importance of responsibility mirrors the development of modern society, which is marked by an extensive division of labour. Under such conditions, the effects of one's behaviour may be neither clear nor intended.

Specifically, this issue comes up when we look at organizations, including corporations. There's an intricate ethical debate going on about whether and in what sense corporations may be “responsible” in the first place (French 1992; Maring 2005). Even though there are different views on whether they could and should be made *morally* responsible, there is some consensus about a few things:

- Corporations and organizations in general are not mere aggregates of individuals, therefore the outcomes of corporate behaviour are not merely the sum total of individual acts, but an emergent result likely not intended by any particular individual. Thus, it may be unjust to lay the blame on some individual “scapegoat”.
- Corporations contain particular structures and cultures which may “channel” individual acts in certain directions, i. e. these individuals are not acting freely. Therefore, it may be more effective to change the organization – not just exchange the individuals – in order to prevent irresponsible behaviour in the future.
- Corporations (or their legal successors) have to take responsibility when individual actors can no longer be made responsible for what they did. Therefore, it may make practical sense to make corporations responsible, if otherwise no one would be.

Corporations can be made responsible for ethical, theoretical and practical reasons – in addition to individual actors.

For these theoretical, ethical and practical reasons, it seems justified to endow corporations with some shared responsibility, in addition to the responsibility of individual actors. Actually, in corporate criminal law, this view was adopted in the Austrian *Verbandsverantwortlichkeitsgesetz*.

Apart from this rather sophisticated debate on corporate responsibility, there's the more popular debate on CSR that had actually been initiated by businesses – in an effort to answer growing critique of corporate social irresponsibility in the wake of globalization. This critique or moral outrage focused on three general issues: corporate fraud, illoyalty (to particular sites and communities) and the exploitation of social and ecological resources. Concepts such as *Corporate Governance*, *Corporate Citizenship* and *Corporate Social Responsibility*, having been reintroduced into the debate in the late 1990s, can be seen as efforts to give answers to these particular “moral crises” of the corporate world.

We will recurrently get back to a discussion of *Corporate Social Responsibility* throughout this course. At this point, it will suffice to distinguish the concept (as an ideal notion) from the two others just introduced. I will distinguish them with respect to their relation to the process of value creation. Seen this way, CSR – even in a narrow “business case” sense of the term – still proves to be the most demanding and promising of these concepts.

- *Corporate Citizenship* focuses on “giving back to society”, it is basically about “doing good and talking about it”, a new strategic approach to philanthropy that's concerned with general “social issues”, not the company's own business, i.e. the process of value creation.
- *Corporate Governance* focuses on “moral risk” (on the part of management), it is basically about securing the interests of shareholders (the principals), preserving trust and, therefore, the flow of capital, a rather conventional, neo-classical view that identifies corporate social responsibility with profit-maximizing, implying that this would be *per se* in the general interest.
- *Corporate Social Responsibility* focuses on “internalization”, it is basically about answering legitimate claims made on the part of society, based on an understanding of the firm as a social institution that's embedded in a moral universe. In such an ideal understanding, CSR includes responsibility for its core business, along the entire value chain, for economic as well as social and ecological consequences, and *vis-à-vis* all stakeholders that have a legitimate interest in its operations.

Actually, even if CSR in theory is a very demanding concept, there's an ongoing debate about whether it should be seen as a “business case” (basically counting on changes in society that a company would react to “voluntarily”) or as a “moral case” (basically demanding that corporations be responsible for immoral acts no matter what). Practically, this is also a debate about what binding regulations are needed to hold a company to account, or whether this should be left to the discretion of management and to the sanctions of the market.

The popular debate on CSR had actually been launched by corporations themselves, for defensive reasons.

Due to constant pressure by civil society groups, CSR has become a fairly demanding concept, even in the narrow sense of a “business case” – at least in theory.

Sustainability

In ethics, this is actually a rather new concept (cf. chapter 8). The word “sustainability” was originally coined in forestry – even though the notion (or rather a hunch of what’s *not* sustainable) may be much older: This accounts for the fact that wood, for centuries, had been the most important resource, as a fuel, building material and pulp. Ironically, this original problem of sustainability seemed to be solved with the very discovery of fossil fuels, such as coal, petrol and gas. Many forests, back until ancient times, had fallen victim to the insatiable hunger for wood, which left some of Europe’s countryside eroded. So, with this 19th century “energy revolution”, the woods could finally be renewed (Grober 2010).

Sustainability is the imperative of our time, pinpointing the limits of our current, one-dimensional ways of acting and thinking.

The problem of sustainability – more precisely: sustainable development – eventually re-entered the global stage a little more than a century later, at the foreseeable end of the “fossil age”. In its still most prominent, general definition, issued in 1987 by the so-called *Brundtland Commission*, “[s]ustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED 1987).

As an ethical principle, sustainability adds three aspects to the debate:

- It is about integrating different claims into a conception of the good life. Sustainable development is not only about saving the environment, but about developing societies in ways that can be sustained. Therefore, it is vital to find a compromise between ecological, economic and social claims, or better still: To see in what respects these overlap, interact and how they may be realized in a joint way.
- It adds the dimension of *limits* to the classical principles. Sustainability is about limits that we face in almost all realms of life, be it resources, space or time.
- It focuses specifically on responsibility for future generations, calling for “intergenerational justice” as a principle we have to bear in mind in all our decisions.

Sustainability actually also is an aspect of how we relate to each other, how we make decisions – for the simple reason that what is supposed to be “sustainable” often has to be subject to an informed debate: Only decisions that include those that have to carry them out or are affected by them can be sustainable. This brings us to principle of *democracy*.

Democracy

Democracy no doubt constitutes a core institution of our society. We proud ourselves of living in a democracy, including the rights of free expression and to take part in the political process. Ironically, still, democracy is very much limited to this political realm, and to representative forms of democracy – while the citizens’ (the sovereign’s) say is limited to periodic elections and media-informed control of delegates who take the actual decisions. In the economic realm, democracy is generally a rather *exotic* phenomenon. While in most companies, strict hierarchical structures and chains of command are predominant, there are individual efforts to initiate democratic structures in companies.

Democracy is an ethical ideal based on the belief that decisions should be made by those affected, in ways that assure the emergence of some form of “communicative rationality”.

To appreciate the ethical value of democratic decisions, we can reiterate what was said about the dialogical paradigm of ethics. It actually refers to *interactions*, to the *process* of decision-making – not to the motives of those involved, nor on the eventual results of such

decisions. Indeed, to quote Winston Churchill, from a speech held before the *House of Commons* in 1947: “Democracy is the worst form of government except all those other forms that have been tried from time to time.”

Just as democracy refers to the very process of decision-making, it has to be judged by its own ideal. Actually, this democratic ideal has been fashioned after the *ethical dialogue*, where all those that should have a say may take part freely in the exchange of reasoned arguments. According to this ideal, this not only precludes anybody from taking power, systematically discriminating against others, or pushing through with their interests at the expense of others. It also holds the promise that the best arguments will be heard and eventually inspire the decision – not mere power or influence.

This reflects the ideal of so-called *discourse ethics* which holds that, in an ideal speech situation, where people exchange arguments irrespective of actual differences in power and influence, something like a “communicative rationality” is at work and helps to derive at good decisions. In practice, this ideal may be unreachable. Still, it may serve as a valuable benchmark for stakeholder dialogues, but also for decisions to be made in work groups or governance bodies of big corporations.

The following case study, in a nutshell, brings up much of what was said in this chapter, in the form of a true *ethical dilemma*. Despite its simple setting, “doing the right thing” is neither easy nor clear-cut. The case’s main purpose, then, is to explicate and understand our moral intuitions, and together to find a way to reach a morally legitimate decision – *quick*.

The Cave Rescue, an “ethical dilemma” of sorts Philosophers seem to like caves to make a point: Just think of Socrates’ classical “allegory of the cave” to illustrate our limits of perception and conception (we just see the passing shadows which we stubbornly take for reality). The case at stake is not about ontology (what “is”?) or epistemology (can we “know”, what and how?), but about ethics: *What are we to do?*

Think of a group of tourists. They were on an adventurous trip to visit a well-known cave. All of a sudden, a part of the cave near the entry collapsed. Nobody died, but now the group is caught inside the cave. A rescue team has been alarmed by the cave authority. The situation as it reveals itself to the rescue team is as such: The five people (four tourists and their seasoned guide) gathered at a spot with access to an interphone system, therefore they can communicate with the rescue team. According to the information from inside the cave, one person was badly hurt by the collapse, and the cave is quickly filling up with water. The captives will have to be rescued with a winch, through a narrow emergency shaft – one by one, and quick. It is very likely that the rescue team will be able to rescue one person, yet the odds of any other successful rescue are getting worse every minute. So, the rescue team faces a dilemma: Whom should they rescue first?

- *A little girl*, 12 years old. She was seriously wounded in the cave collapse. Her rescue will likely take twice the time as in the case of the others.

- *Her mother*, who has another three little children waiting for her at home.

- *A medical researcher*, a misanthrope, but also a real genius, supposedly about to discover a cure for cancer. He is so distrustful that he made no notes but has it all in his head.

- *A good samaritan* who has already saved uncounted lives.

- *The cave guide*, who is also the brother of one of the rescue team.

Whom would you choose to bring out first, when it is sure that you can save one person? What options are there to reach a decision that can be ethically justified?



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