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Should Business be Moral?

THOMAS DONALDSON*

Remarks on Hans-Ulrich Küpper's article

Professor Küpper argues cogently for an alternative conception of business ethics. The starting point, he asserts, should not be normative claims, i.e., claims about what business “ought” or “ought not” do, but the analysis of the real moral problems confronting business. As researchers, we should dig into the real-world problems that confront accounting, finance, and marketing, and we should eschew subjective values in favor of more scientific and empirical modes of analysis. This approach, he concludes, opens new perspectives and allows for the use of logical, empirical methods and the kind of knowledge that is “familiar to business administration academics.” Earlier normative attempts by German theorists such as Homann, Steinmann, and Ulrich, he notes, have failed to gain currency. In turn, a shift in approach away from the normative and towards the analytical and empirical is important for making business ethics more popular in German-speaking countries.

Along the way, Professor Küpper provides a rich account of the historical roots of the intellectual obstacles that until the 1980s blocked serious work in business ethics.

But why have the several normative positions and concepts of business ethics failed to gain acceptance in German-speaking countries? Is it because, as Küpper argues, they have been excessively normative? Or is it, rather, because they have been excessively abstract and unconnected to concrete business issues? Or is it possibly even because they are ahead of their time, unrecognized by nearsighted academics and business practitioners caught up in their own fraying paradigms?

I agree with Professor Küpper that business ethics in German-speaking countries should become more connected to day-to-day business problems. But I disagree that the solution is to emphasize the empirical and the analytical aspects of research at the expense of the normative. The solution is not to ban the normative, but to “triangulate” research between normative and empirical positions in the context of practical business problems. To abandon the normative to the realm of the subjective and mere personal taste is to give the game up to the ideological extremists who sometimes claim to speak for market-based economics. These extremists have their own normative assumption in full view. To abandon the normative to the realm of taste amounts to a failure to answer the most pressing question in all of business ethics, namely, “Should business be moral?”

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I wish to interpret professor Küpper's good article fairly. He does not argue simplistically that we should banish normative analysis. His more nuanced approach advises us to be more "scientific" in approaching normative issues. He notes insightfully how even decision theory debates norms of rationality, and how science itself requires normative principles for its pursuit. There is much to admire and to learn from his account. And, yet, as he responds to critics of business ethics such as Friedrich August von Hayek and Milton Friedman, he is moved to recommend significant constraints on normative theorizing. The science of ethics is not about recommending norms, principles, and rules, he argues, but only about analyzing and discussing them.

He advances the intriguing notion of "analytical business ethics," a concept with three intersubjectively verifiable parts: (1) logical, (2) empirical, and (3) normative. But while this tripartite classification may seem to condone robust normative theorizing, Küpper is quick to add that normative statements can "be neither logically nor empirically true." Their validity depends on values and judgments, and "values can only be accepted personally." Science must "respect everybody's freedom to accept fundamental principles and moral values for themselves." In turn, the analytical approach to business ethics he recommends addresses moral problems using only empirical research, logical deductions, and the analysis of reasons to justify evaluations.

In critiquing Küpper's position, I will leave aside the venerable current of philosophical ethics, embodied most brilliantly in the work of the German philosopher, Immanuel Kant (1785), which flatly denies that all normative statements either lack logical justification or are doomed to mere tautologies. Instead, I wish to focus on the futility of an overly narrow conception of normative theorizing, and to show why avoiding straightforward normative theorizing sacrifices our ability to condemn bad business behavior of the kind that brings scandals at Enron, Parmalat, Volkswagen, and Siemens into popular relief.

If we look closely at Küpper's remarks we find, ironically, that they are laced with normative claims of the kind he wants researchers to avoid. This reveals a subtle contradiction. For example, he asserts on the one hand that normative statements can only be accepted *personally*, even as he claims on the other hand that "science must respect everybody's freedom to accept fundamental principles and moral values for themselves." The epistemological status of the second claim, i.e., the proposition that science must respect personal freedom, is surely more than the expression of *personal* taste. It is a proposition meant to be accepted, and accepted even by those whose personal tastes might be to deny it.

Similarly, when discussing the freedom to adopt personal moral precepts, Küpper observes that ethical freedom is characteristic of modern, free societies and that within the boundaries of human rights each person "should be free to choose his/her own basic values." Hence, he observes, correctly, how a perfect framework of moral rules and incentives is not even desirable. Küpper's point reflects what I have elsewhere called "moral free space." (Donaldson/Dunfee 1999) An oppressive morality that fails to allow different moral interpretations of morality in economic life is in itself immoral. But some limits must nonetheless exist on moral free space, and Küpper acknowledges as much when he notes that even freedom must operate within the boundaries of "human rights." The obvious question, then, is what gives Küpper or

anyone else a scientific basis to make the robust normative claim that business behavior “must respect human rights?”

His analysis of the methods for solving conflicts between economic goals and ethical criteria (in which he offers a two-by-two matrix of possibilities) similarly entails significant normative claims. For example, the matrix suggests that firms exposed to the IV quadrant, i.e., of negative compatibility, will “try to avoid” the conflict. But precisely *why* should firms avoid the conflict? What if embracing the conflict happens to make them more money? The unspoken reason, of course, is that at least *ceteris paribus* firms should avoid immoral behavior.

Presumably Küpper’s analytical business ethicist is precluded from ever objectively justifying a normative view about whether all corporations should single-mindedly pursue the maximization of shareholder interests. This goes too far. The question of whether pure shareholder interest maximization is morally justified, indeed, is the *sine qua non* of business ethics. It boils down to the basic question of why and whether a business should even be concerned about morality. Without answering it objectively, we have no intellectual footing to proceed with the analysis of any specific ethical problem, be it in accounting, marketing, finance, strategy, or elsewhere. Without answering it objectively, we are left to the simplistic moral logic of profit maximization.

Critics of business ethics, notably, have no qualms about introducing normative claims in their analysis. For example, Milton Friedman acknowledges that the pursuit of profits does not excuse a manager who engages in fraud or deception and, even more, that corporations themselves are obliged to conform to the morality of the surrounding society. He and other conservative economists also display moral concern frequently; for example, when they observe managers abusing their responsibility by gathering lavish perks and compensation. They are insistent on the moral, fiduciary duties of managers to shareowners. Violating those duties, for such theorists, is more than a legal violation: it is a violation of the moral duty they have to the owners of the property they have pledged to manage.

Hence, in order to find better conceptual tools with which to address practical business problems, we must at a minimum identify the normative role and function of the modern corporation. Such approaches remain in their infancy at this stage of history, but desperately need further development. Two requirements exist for any such theory:

- (1) the theory must embody normative and not merely descriptive principles, and
- (2) the theory must be capable as dealing with the corporation *qua* corporation.

In other words, it must first embody principles that do more than merely describe and explain the facts of corporations but that paint a picture of the role that corporations *should* play in society. Second, it must analyze the corporation on its own terms and as more than a second-order phenomenon of economics or political behavior.

Empirical data gathering and philosophical theorizing lie at the extreme ends of a spectrum of research activities, each of which has something important to contribute to our understanding of ethics/business and society. It is tempting to suppose that only empirical claims can rest on solid theoretical foundations, and that normative ones must be left to emotion or personal preference. When put in its starkest form by

a small group of philosophers of science in the early and mid-twentieth century (Popper 1959), this view produced the infamous “falsifiability” criterion: to wit,

The only propositions which can be said to be true are those subject to falsification through observation or experiment.

Philosophers of science, however, rightly abandoned this doctrine later in the twentieth century once they noticed that the falsifiability proposition *itself* could never be falsified through observation and experiment.

Küpper is surely correct to insist that empirical research should be more prominent in business ethics. And he is correct also to identify the epistemologically distinct, almost irreconcilable difference between empirical and normative methodology. But this difference does not preclude what might be called “normative triangulation.” Normative triangulation involves discovering a relevant factor by triangulating between a normative precept and another factor. Anyone who has studied trigonometry knows that it is possible to calculate the distance to the far vertex of a triangle by knowing only the length of the side and the angles of the two remaining sides. We can know how far offshore a ship is, or how far the moon is from the earth, without ever measuring the distance directly. All we need to know are the angles of the views from the observation points to the distant object, and the distance between our two points.

Adam Smith (1776) triangulated between the normative precept of the wealth of nations and the inevitable, if regrettable self interested motivation of individuals. His brilliant discovery, memorialized in the *Wealth of Nations*, was made possible not only because of his knowledge of the empirical springs of human behavior, but because of his formidable knowledge of moral theory. Smith’s particular genius lay in measuring the distance between what people ought to do and what they actually do. It was a kind of triangulation between two worlds: the world that ought to be, and the world that is. He knew well that prevailing norms of Christianity and moral theory encouraged people away from selfishness and towards charity and benevolence. In fact, he himself believed that these two motives were mankind’s noblest. But he also understood that by discouraging selfish ambition, contemporary attitudes discouraged the initiative and industriousness needed to generate a material surplus for society. If he could demonstrate that self-interested behavior possessed a *moral* rationale, not so much for the individual, but for the society as a whole, then his ideas could enhance the wealth of nations and, in turn, benefit everyone, even those who were least-well off. “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner,” Smith famously wrote, “but from their regard of their own interest.” In a single stroke, Smith thus broke demolished Mercantilism’s stranglehold on thought, and ushered in a new, more prosperous economic order.

Some of the most important work in economics and philosophy that has emerged over the past three decades is rigorous, logical, and theoretically elegant, but only indirectly dependent on observation or experiment. It has involved precisely the kind of “normative triangulation” described above. This includes much of Amartya Sen’s path-breaking analysis of the ethical foundations of economic theory (Sen 1985; 1987; 1992; 1993; 1994), and the political/economic philosophy of John Rawls (Rawls 1971; 1993; Rawls/McMurrin 1987).

The time for such hybrid, normative analysis is ripe. At no time has the appetite for knowledge about ethics/business and society been so large. And at no time has the legitimacy of business depended so heavily on clarifying its connection to human values.

Hence, as we define what is possible for good management research today, we should avoid framing our answers in the Procrustean either-or bed of data vs. theory, facts vs. emotion, or normative versus empirical propositions. Some of the most popular contemporary frameworks used for analyzing ethical issues in business, such as social contract theory, stakeholder theory, and experimental economics/game theory, are clearly methodological hybrids. Not empiricism only then, but empiricism plus normative tools, appears to be the winning methodological formula for research in ethics/business and society, whether in German-speaking countries or elsewhere.¹

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¹ A small but growing literature addresses the issue of normative and empirical integration. See, for example, Trevino/Weaver (1994).