Virtue Ethics as a Framework for Business Ethics: An Ethico-Philosophical Approach

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Abstract
In this paper we suggest that the growing use of virtue-concepts in business ethics reflects a search, among a growing number of business ethicists, for a sound logical foundation for their discipline. By embracing virtue ethics, however, ethicists may get more than they bargained for. A detailed understanding of the virtue concept reveals that it is fundamentally antithetical to conventional business activity. Introducing virtue into business ethics, therefore, may discredit the discipline as currently defined. Business ethicists may be forced to face much broader questions regarding the moral justification of competitive economic activity.

Introduction: Anyone undertaking a keyword search of the business ethics literature a decade ago there would only infrequently come across the word virtue. If one were to undertake a similar search today, however, virtue would likely rank among the most common keywords. But the leading contemporary proponent of virtue ethics, namely Alasdair MacIntyre (1984, 1988), argues vehemently that virtue has no role in business. Thus the fact that virtue has become popular within the business-ethics discourse is not without paradox.

In this paper we explore this paradox. Two questions are addressed. First, why is virtue finding such a powerful voice within the business ethics discourse? Second, what are the implications for the discipline of business ethics if it is viewed increasingly through the lens of virtue-ethics theory?

In answer to the first question, we suggest that business ethics is turning to virtue because attempts to apply other moral philosophies to business have failed. Conventional business ethics is being exposed as a 'naked emperor': a discipline with no sound conceptual foundation.

In answer to the second question, I suggest that many of the business ethicists who are currently embracing virtue do not realize just what they are admitting into their discourse. Virtue ethics is not just one other ethics theory, like Kantianism or Utilitarianism. It is a 'Trojan Horse' that, once admitted within the walls of business ethics theory, will force the latter to question the very tenets of competitive business enterprise. Indeed, just as virtue-ethics-theory discredits much of contemporary moral philosophy, it may well discredit all of conventional business ethics theory.
Naked Emperors: We turn now to a more detailed answer to the first question posed above. If the discipline of business ethics is indeed a naked emperor, then it is a discipline that - despite the protestations of its adherents - lacks any sound logical foundation. It is a myth sustained by those who have a vested interest in sustaining it. As with the emperor and his courtiers, this vested interest may simply be a fear of appearing stupid or unqualified. Or it may be a reluctance to discredit the discipline that provides an academic salary, consulting income, and an avenue for publication. Also, the powers of self-deception must not be under-estimated. Through self-denial and an unwillingness to self-reflect on the logical foundations of their beliefs, many individuals may deceive themselves as to the true merits of their avocation. So, for various reasons of self-preservation or self-deception, the myth is sustained. The naked emperor is mythologically clothed.

Recent evidence that business ethicists may feel somewhat naked can be gleaned from their reaction to Andrew Stark’s infamous critique What’s The Matter With Business Ethics that appeared in the Harvard Business Review (1993). From what I witnessed at the 1993 annual meeting of the Society for Business Ethics (SBE), in Atlanta, this one fairly innocuous article precipitated a feverish crisis of confidence among the business-ethics fraternity. This crisis climaxed in a terse letter-to-the-editor of HBR from the SBE. The letter expressed nothing short of moral outrage: It is unfortunate that a distinguished journal allowed such an uninformed and largely unsubstantiated indictment of serious professionals and their field to be published in its pages. (Duska, 1993, p. 10). It is surely unlikely that a similar critique of finance or psychology would have engendered such an officious and defensive response.

Indeed, even some of the leading champions of business ethics recognize that it faces a real crisis of legitimacy: Where does business ethics stand today? Despite the clamor for it, its legitimacy as an academic discipline is suspect. Unless this question of legitimacy is addressed, and to some extent answered, the future of business ethics is not bright (Bowie, 1992, p. 17). It seems that many in the discipline of business ethics recognize this crisis and are, as Lambeth puts it: Waiting for a New St. Benedict (1990, p. 97). Some feel that they have found this St. Benedict in the guise of virtue-ethics theory. For example, Solomon argues that business ethicists have been looking for theory in the wrong place and, consequently, they have been finding and developing the wrong theories (1992, p. 319).

Solomon recognizes the impotence of business ethics as stemming from its inability to answer the fundamental question: Why should I be ethical? As MacIntyre (1984) points out, conventional deontological and consequentialist moral philosophy (what he calls post-enlightenment moral philosophy) has failed to answer this question. Thus, given that business-ethics theory looks to moral philosophy for its epistemological foundation, business ethicists face a real problem of legitimacy. Attempts have been made to subvert and circumvent this problem by rejecting moral philosophy in favor of economic theory. Ethical action is given a strategic economic role and is justified on these grounds. An economic justification is given surreptitiously along the lines of ethics is good business. Thus ethics becomes just another economic strategy within the competitive milieu. To see this one need look no further than the first few pages of any recent business ethics text. In these texts we have, as David Gauthier (1988) defines them, Morals by Agreement, which of course means that we don’t have true morality at all but rather a means to strategic advantage through cooperation; we have strategic ethics rather than real ethics. The underlying motivation for the cooperation envisioned by Gauthier is strategic self-interest. This is why Thomas Donaldson (1989) criticizes Gauthier’s justification for morality as being insufficient to instill moral behavior in an international environment where one agent is considerably more powerful than another: in such an
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environment we need real ethics, such as justice or compassion, because strategic mutual benefit through cooperation may not apply.

The distinction between strategic-ethics and real-ethics is often a subtle one. The economic benefits to be derived from superficially ethical behavior can be significant. Firms can reap significant profits from building reputations for such attributes as social responsibility or trustworthiness. Swanda (1990), for example, notes that the value of the firm’s moral character ... can result in a market value of the firm that is greater than the firm’s net assets (p. 752). He conjectures that even in the short run one can argue that the firm with an excellent ethical reputation can have a special economic advantage (p. 753). Swanda characterizes this ethical reputation as both an asset and a source of income, as a stock and a flow:

“While morality as a resource cannot be considered in the same context as tangible assets or goods, it can be considered, however, as a highly valuable but volatile asset, one which reflects the perception of the community. In this sense, it will use outflows of resources to establish stocks of morality in order to encourage various publics to hold the firm in trust.” [P. 757]

The crucial factor here is not observable action, but rather the underlying motivation. It is the motivation for the action that determines whether the act is fundamentally ethical or economic. Business ethicists often seem to forget this; they confuse strategic cooperation with moral cooperation. Two recent books in the field, both by prominent business ethicists, suffer from just such confusion. In Competing with Integrity in International Business (1993), Richard T. De-George makes the following statements:

Competing with integrity does not imply either a reluctance to compete or an inability to compete aggressively. ...In fact, it demands precisely the institutional discipline that often gives a competitive edge. Competing successfully with integrity is in fact the aim and the norm of individuals who compete with integrity. [P. 7, my emphasis] So DeGeorge is saying that the reason why firms, and individuals within firms, act with integrity is because they wish to be successful: success is the aim of integrity. The motivation is economic not moral. Our naked emperor is being clothed in the robes of strategic material advantage. This superficial integrity is certainly not a virtue qua virtue-ethics theory, since virtues must be exercised for their own sake and not in the expectation of material gain. Indeed it is hard to see how this notion of integrity has any substantive moral content. But then how can it if the underlying discipline of business ethics itself has no substantive moral content. Here DeGoerge seems to be implying that the underlying motivation is and should be strategic rather than moral. This is ethics-for-profits-sake rather than ethics-for-ethics-sake. In other passages DeGoerge compounds the confusion. When discussing reputation, for example, he defines reputation in economic terms. A reputation as a reliable, ethical company justifiably commands a premium from those who use the company’s products or services (p. 7). Later we are told that ethical action is compatible with profit and success. One might even claim that, to some extent, ethical action explains the success of IBM and Johnson & Johnson (p. 8). Once again economic rationales are applied to sell ethics in business. It seems that DeGeorge is not talking about any substantive concept of ethics at all, but rather about strategic economics in the guise of ethics. Similar confusion can be found in Robert C. Solomon’s recent book, The New World of Business: Ethics and Free Enterprise in the Global 1990’s, (1994). In the preface Solomon states that ethics is not a burden or a business disadvantage but the very ground rules of business as such and the key to business success (p. XV). If ethics is viewed solely or primarily as the key to economic success then
it is once again being justified by strategic economics. Then in the book's introduction we are told that whether or not a corporation designates a portion of its yearly giving to the Environmental Defense Fund or the Sierra Club, it is no doubt keenly aware that being green is a good way to bring in the green (p.5); implying again that such decisions are economically motivated rather than ethically motivated.

Nor are recent journal articles immune from such ambiguities. Robert Black's review of John Commons on Business Ethics that appeared recently in *Business Ethics Quarterly (BEQ)* provides another example: ethical behavior will enhance and maintain customer confidence. businesses who do not depend upon ongoing customer relations for continuing revenues need not attend so closely to ethical practices (1994, p. 361). Here again there is a confusion between motivation and action. The action may appear moral, but the motivation is clearly material. Honoring contracts in order to foster ongoing customer relations for continuing revenues is economics, not ethics. Another recent example from *BEQ* is supplied by Hosmer: Let us assume that you accept for now the thesis of this article that acting in ways that can be considered to be right and just is absolutely essential to the long-term competitive success of the firm (p. 200). Once again there is ambiguity as to whether the long-term competitive success should be viewed as merely a by-product of the ethical disposition, or if competitive success is actually being used as the justification for such a disposition in business. As Robert Frank, in his recent book entitled *Passions Without Reason*, points out: a truly ethical act implies a motivation in which satisfaction from doing the right thing must not be premised on the fact that material gains may follow; rather it must be intrinsic to the act itself (1988, p. 254).

Frank makes an innovative attempt to intergrate economics and ethics. Through his commitment model, Frank argues that acting in one’s material self-interest need not be antithetical to acting ethically:

The commitment model is a tentative first step in the construction of a theory of un-opportunistic behavior. It challenges the self-interest mode’s portrayal of human nature in its own terms by accepting the fundamental premise that material incentives ultimately govern behavior. Its point of departure is the observation that persons directly motivated to pursue self-interest are often for that very reason doomed to fail. They fail because they are unable to solve commitment problems. [1988, p. 258]

Frank claims that inherently trustworthy agents will inadvertently betray their predisposition through emotional signals, namely facial expressions and body language. Conversely the shifty eyes and other uncontrollable emotional signals of opportunists will reveal their underlying motives to the principal. Thus, to paraphrase the title of Frank’s book, our uncontrollable Passions betray our Reason.

Frank’s commitment model is appealing in that ethics appears to find some logical justification within the existing economic rubric. In this regard his model is very similar to the one proposed by Gauthier in *Morals by Agreement* (1988). In both cases some form of 'moral' code arises naturally in a competitive market system as agents realize the economic advantages of cooperation.

But despite the logical eloquence of these models, they fail to overcome the fundamental dilemma of the strategic approach to ethics. They fail to rationalize ethics as an objective in and of itself. Indeed Frank invokes ethics as something beyond rationality. Agents do not choose to become ethical through some logical thought process. Frank merely argues that an agent who is *a priori*
ethical may be no worse off materially than an opportunistic agent. Thus, despite appearances to the contrary, Frank's model keeps us firmly within the strategic approach to ethics.

We must exercise great caution, therefore, when interpreting the motivation behind apparently benevolent corporate actions such as cooperation, charitable giving, or the development of corporate credos or codes of conduct. For example, in a recent Harvard Business Review article, Craig Smith identifies the true motivation behind corporate philanthropy; "the strategic use of philanthropy has begun to give companies a powerful competitive edge" (1994, p. 105). So once again, superficially ethical acts are at root manifestations of strategic economics. In a study that appeared recently in the Journal of Accounting and Public Policy, Baneish and Chatov (1993) reach similar conclusions. In this study, the content of 160 corporate codes of conduct is analyzed in relation to the firm's business environment. The authors find that "managers choose code content so as to reduce the expected cost of adverse legal or regulatory action" (p. 29). They go on to conclude that "[o]ur findings are consistent with code adoptions and development as good business decisions" (p. 29, emphasis added). Thus codes of conduct have much more to do with economic survival than moral sentiment.

By accepting and legitimizing this economic role for ethics, business-ethics theory is merely exposing itself as conceptually naked. Indeed, given the superficial nature of this strategic approach to financial ethics, is this really ethics at all, or merely strategic economics? By defining financial ethics in this way are we diluting the concept of ethics to such an extent that it becomes merely a semantic modification to economic strategy? Are agents who build reputations for trustworthiness because it is in their material self-interest to do so really in any meaningful way ethical? What will these agents do when trustworthiness is not in their material self-interest?

Beyond the confines of economic self-interest, business ethicists have failed to answer the question that conventional moral philosophy has failed to answer, namely, Why should I be ethical? Conventional business ethics has in essence divorced morality from philosophy and has instead married it to economic theory. Hence the growing interest in virtue-ethics theory as an alternative conceptual foundation. But what, if anything, does virtue have to say to business? This brings us to the second of our original questions.

Trojan Horses: In recent discussions of virtue in Business Ethics Quarterly and elsewhere, virtue-ethics theory is often introduced as merely an alternative to stakeholder theory or social-contracts theory (e.g. Dunfee, 1995, p. 167). Catchy sound-bites such as "the virtuous corporation" will no doubt soon become commonplace. But such superficial treatment betrays a failure to grasp the full substance and depth of the virtue rubric. For example, despite its fashionable appearance, the term "virtuous corporation" is at root meaningless. A true and in depth understanding of the virtue concept, as supplied for example by MacIntyre reveals that it is a concept fundamentally antithetical to competitive economic activity. (1984, 1988) Thus individuals within a corporation, which by its very nature is engaged in the competitive acquisition of material wealth as its fundamental raison.

By introducing virtue into their dialogue, therefore, many business ethicists are getting far more than they bargained for. On the surface virtue may look fairly innocuous. But once one delves beneath the surface - once the Trojan horse is opened - one is faced with a view of the world that challenges the very tenets of western corporate culture. But what exactly precludes individuals within a corporation from exercising the virtues? Why can we not have a virtuous corporation? What is it about virtue ethics that excludes competitive economic activity from the moral realm? MacIntyre, following in the tradition of Aristotle, Augustine, and Aquinas, answers these questions.
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in depth. He concludes that. The tradition of the virtues is at variance with central features of the modern economic order (1984, p. 254). In the remainder of this section I endeavor to distill the essence of his argument, an argument that rests on two key concepts, namely that of a practice and of an internal good.

For an individual to successfully cultivate the virtues requires that that individual be engaged in a type of cooperative activity known - in virtue-ethics parlance - as a practice. Thus a necessary condition for a business person to be virtuous is that communal business activity - i.e. a corporation-qualifies as a type of practice. But does it?

MacIntyre defines a practice as; any coherent and complex form of socially established cooperative human activity through which goods internal to that form of activity are realized in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity, with the result that human powers to achieve excellence, and human conceptions of the ends and goods involved, are systematically extended. [1984, p. 187]

In a similar vein Barry Schwartz (1993) isolates three central features of practices:

1. They establish their own standards of excellence, and indeed, are partly defined by those standards.
2. They are teleological, that is, goal directed. Each practice establishes a set of "goods" or ends that is internal or specific to it, and inextricably connected to engaging in the practice itself. In other words, to be engaging in the practice is to be pursuing these internal goods.
3. They are organic. In the course of engaging in the practice, people change it, systematically extending both their own powers to achieve its goods, and their conception of what its goods are.

From these definitions it is clear that the concept of an 'internal good' is crucial to the notion of a practice. But what exactly is an internal good that distinguishes it from an external good? MacIntyre makes this distinction as follows:

It is characteristic of what I have called external goods that when achieved they are always some individual's property or possession. Moreover characteristically they are such that the more someone has of them, the less there is for other people. ...External goods are therefore characteristically objects of competition in which there must be losers as well as winners. 

Internal goods are indeed the outcome of competition to excel, but it is characteristic of them that their achievement is a good for the whole community who participate in the practice. [1984, pp.190-191; emphasis added]

One of the contexts in which MacIntyre illustrates the distinction between internal and external goods is that of the game of chess. Here he defines the internal goods as those goods specific to chess, the achievement of a certain highly particular kind of analytical skill, strategic imagination and competitive intensity (1984, p. 188). Thus internal goods have certain distinct features:

1) They are unique to a particular activity. Thus the internal goods to be derived from chess are different from those to be derived from accountancy, from badminton, or from architecture. Fame, power, and money, therefore, given their unethical nature are clearly not internal goods.
2) They are not of finite supply. Thus my achievement of any given internal good in no way inhibits your achievement of similar goods.
3) They are intangible in the sense that they do not readily lend themselves to quantification or mathematical enumeration. This may explain why they have been largely ignored by economic theory.

As MacIntyre argues in *After Virtue*, it is a corporation's focus on external goods - on the goods of effectiveness over and above the goods of excellence - that disqualifies it as a practice. A truly virtuous corporation simply could not have an ultimate goal of economic survival or, as DeGeorge and Solomon term it success: It is of the character of a virtue that in order that it be effective in producing the internal goods which are the rewards of the virtues it should be exercised without regard to consequences (MacIntyre, 1984, p. 198).

Some business ethicists’ note that the corporation is a type of community, and they surmise from this that it is an environment suitable for virtue ethics. For example Solomon states that corporations are real communities, neither ideal nor idealized, and therefore the perfect place to start understanding the nature of the virtues (Solomon, 1992, p.325). What he fails to realize however is that the very nature of competitive economic activity requires a primary focus on external goods in order to survive. This focus will exclude the virtues. As MacIntyre admits, possession of the virtues may perfectly well hinder us in achieving external goods. We should therefore expect that, if in a particular society the pursuit of external goods were to become dominant, the concept of the virtues might suffer at first attribution and then perhaps something near total effacement (1984, p. 196). Thus it is not just that the virtues are incompatible with business, but also that business actually tends to drive out the virtues. To illustrate this, MacIntyre compares two hypothesized fishing communities:

A fishing crew may be organized as a purely technical and economic means to a productive end, whose aim is only or overridingly to satisfy as profitably as possible some market’s demand for fish. Just as those managing its organization aim at a high level of profits, so also the individual crew member’s aim at a high level of reward. When however the level of reward is insufficiently high, then the individual whose motivations and values are of this kind will have from her or his own point of view the best of reasons for leaving this particular crew or even taking to another trade. Management will from its point of view have no good reason not to fire crew members, and owners will have no good reason not to invest their money elsewhere. [1994, p. 285]

Here MacIntyre is inclining towards contemporary business ethics. The above is clearly an organization pursuing external goods in a competitive market economy. This is not a virtuous fishing crew. But then MacIntyre goes on to describe another fishing community:

Consider by contrast a crew whose members may well have initially joined for the sake of their wage or other share of the catch, but who have acquired from the rest of the crew an understanding of and devotion to excellence in fishing and to excellence in playing one’s part as a member of such a crew. So the interdependence of the members of a fishing crew in respect of skills, the achievement of goods and the acquisition of virtues will extend to an interdependence of the families of crew members and perhaps beyond them to the whole society of a fishing village. *[Ibid.]* This latter fishing crew clearly does pursue the internal goods of a practice. But it is an organization that is in fundamental ways alien to and powerless against the rigors of market competition. Indeed it seems likely that the latter crew would rapidly fall victim to the former if these two crews were competing for the same fishing grounds.
A truly virtuous corporation *qua* virtue-ethics theory, therefore, is an entity that is very poorly suited to competitive economic activity. Consider, for example, the following recent description of an ethical-cum-feminist corporation:

A corporation run by feminist principles would oppose the exploitation of employees and the environment. A value on community welfare and the collective would foster concern with making the corporation a more habitable, hospitable, and equitable work environment. Feminist management would protect the physical environment through recycling, cleaning up, or detoxifying industrial wastes, complying with regulations and rules that protect workers and the ecosystem, and using biodegradable materials. It would promote the public interest and return profits to workers and the community (in addition to officials and shareholders). Feminist managers would resist closing factories as tax write-offs or moving them to third world countries, where cheaper labor is found. Feminist managers would cooperate with and improve, rather than dominate and degrade, the community and environment.

Such a feminist corporation may undoubtedly be morally desirable, but what does it have to do with a competitive market economy? From the ancient street vendors of Babylon to the multinational corporations of today the history of business is one, not of high moral quest, but of basic economic need. A firm that spent more on pollution control than its competitors, and did not produce where labor costs were lowest would be uncompetitive. As Thomas Gilmore observes; to build a smokeless factory when no competitors are incurring the cost is individual firm suicide (1983, p. 31). Hence we see US and European multinationals taking full advantage of cheap labor and lax environmental regulations in developing countries (Dobson, 1992). Of course if stakeholders were willing to pay a premium for such a green firm then it might compete, but then such actions would become economically optimal. Of course firms today are keenly aware that environmental sensitivity can be a powerful marketing tool. But, as the above quote from Solomon points out, firms are green just so long as it brings in the green.

In arguing for the existence and preeminence of such a feminine or virtuous firm, the above author is arguing, albeit inadvertently, for the rejection or curtailment of the market system. Specifically, MacIntyre isolates three central features of the modern economic order that exclude it from the virtues. These are individualism acquisitiveness and its elevation of the values of the market to a central social place (1984, p.254). A truly 'virtuous corporation' will thus require as a prerequisite an economic environment very different to the one that currently prevails in contemporary western economies. A business ethics founded on virtue ethics thus becomes a discipline that reaches far beyond its conventional conceptual boundaries. Indeed to find legitimacy it must reach beyond these boundaries.

Thus to clothe our metaphorical emperor in real robes - in other words to really imbue business with an ethical foundation - would entail the rejection of the market system as we know it. The legend of the Trojan Horse, therefore, may provide a timely analogy to the future of business ethics. Just as the Trojans enthusiastically wheeled the horse inside the walls of Troy, unaware that it would ultimately lead to their destruction, so business ethicists are currently embracing virtue ethics, unaware that it too may ultimately destroy - or at least discredit - the whole enterprise of ethics in business.

**Conclusion:** This paper analyzes the growing use of the virtue concept in business ethics. I answer two basic questions. First, why is virtue becoming popular? And second, what are the future implications of this popularity?
In answering the first question we suggest that business ethicists are turning to virtue because other conceptual foundations for business ethics have failed. Indeed MacIntyre (1984) would argue that such a failure is inevitable given that these other conceptual foundations, such as deontology and consequentialism, have already failed in the broader arena of moral philosophy. In short, extant business-ethics theory is being increasingly exposed as a naked emperor: a conceptual rubric with no sound logical foundation. We suggest that virtue-ethics theory may well vitiate much, if not all, of business ethics theory. A detailed understanding of the virtue concept reveals that it is fundamentally antithetical to competitive business enterprise. Individuals engaged in business simply cannot cultivate the virtues. Detailed consideration of virtue-ethics theory, therefore, may lead many business ethicists to reject the very notion of business ethics as it is currently known. To survive, the discipline of business ethics will have to broaden its conceptual stance to critique the very notion of market driven competition.

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