

**ETHICS OF THE GOOD: AN ARISTOTELIAN-THOMISTIC
APPROACH TO ETHICAL DECISION-MAKING AND
CORPORATE GOVERNANCE**

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- (3) Striking a Balance between Rules and Principles-Based Approaches for Effective Governance. *Journal of Business Ethics*, 68(1): 52-83 (Arjoon, 2006).
- (4) Ethical Decision-Making: A Case for the Triple Font Theory. *Journal of Business Ethics*, 71(4): 395-410 (Arjoon, 2007).
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- (1) An Aristotelian-Thomistic Approach to Management Practice. *Philosophy of Management*, 9(2): 47-64 (Arjoon, 2010a).

ABSTRACT

This integrating essay is based on an Aristotelian-Thomism in exploring ethical decision-making and corporate governance mechanisms to address issues of corporate deviant behaviour, and ultimately, human flourishing. Eight (8) peer-reviewed journal articles analyse the causes of moral failings of corporate governance and ethical decision-making mechanisms, and propose to address these ethical deficits: (1) *Virtue Theory as a Dynamic Theory of Business* proposes a meta-theory of business that links the concepts of virtues, the common good, and the dynamic economy, (2) *A Communitarian Model of Business: A Natural Law Perspective* offers a communitarian view of business in defining the business organisation as one that incorporates its social purpose that acknowledges the primacy of people over profits, (3) *Corporate Governance: An Ethical Perspective* makes the distinction between ethical and legal compliance approaches to corporate governance in arguing the necessity and importance of the former approach as a basis for an effective legal compliance culture, (4) *Striking a Balance between Rules and Principles-Based Approaches for Effective Governance: A Risks-Based Approach* highlights the drawbacks of an excessively heavy reliance on rules-based approaches to corporate governance, (5) *Ethical Decision-Making: A Case for the Triple Font Theory* offers a comprehensive, systematic, practical approach to ethical decision-making that attempts to integrate virtue ethics into act-oriented normative ethical theories, (6) *Reconciling Situational Social Psychology with Virtue Ethics* attempts to reconcile the virtue ethics-situational social psychology debate, (7) *Slippery when Wet: The Real Risk in Business* identifies factors that contribute to corporate deviant behaviour from both an individual and organisational perspectives, and (8) *An Aristotelian-Thomistic Approach to Management Practice* argues that an Aristotelian-Thomistic humanism better promotes human dignity as it corrects the dysfunctional aspects and ethical deficits than its utilitarian naturalistic humanism counterpart. The failure to integrate an Aristotelian-Thomistic understanding of the virtues and natural law ethical principles of subsidiarity, solidarity, human dignity, and the common good into business practice threatens the stability and survival of the firm since they are required to correct the dysfunctional aspects and ethical deficits of certain aspects of market behaviour.

TABLE OF CONTENTS

	Page
Acknowledgements	2
Abstract	3
Table of Contents	4
List of Figures and Tables	5
Chapter 1: The Aristotelian-Thomistic Framework	6
<i>Overview of Research Publications</i>	6
<i>Aristotelian-Thomistic Humanism</i>	9
<i>Aristotelian-Thomistic Notion of Freedom</i>	11
<i>Aristotelian-Thomistic Natural Law/Virtue Ethics</i>	12
<i>Natural Law</i>	14
<i>Virtue Ethics</i>	17
<i>Theory of the Good</i>	22
Chapter 2: Development and Scholarly Contributions of the Publications	25
<i>Contemporary Relevance and Scholarly Contribution of Publications</i>	28
Chapter 3: Methodological Approaches	55
Chapter 4: Social Principles and the Role of Practical Judgment	61
<i>The Role of Practical Judgment</i>	66
Chapter 5: The Virtue Ethics/Situationism Debate	69
<i>Aristotelian-Thomistic Natural Law-Virtue Ethics: Regulative Ideals</i>	78
Chapter 6: Corporate Governance and Ethical Decision-Making	80
<i>Analysis of Causes of Failure</i>	81
<i>Corporate Governance and Ethical Decision-Making</i>	88
Chapter 7: Research Findings	92
Chapter 8: Conclusion	107
<i>Future Research</i>	109
References	111
Glossary of Terms	127
Appendix A - Citations on Publications submitted for Examination	145
Appendix B - Journal Articles submitted for Examination	162
(1) Virtue Theory as a Dynamic Theory of Business. <i>Journal of Business Ethics</i> , 28(2): 159-178 (Arjoon, 2000)	
(2) A Communitarian Model of Business: A Natural Law Perspective. <i>Journal of Markets and Morality</i> , 8(2): 455-479 (Arjoon, 2005a)	
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(5) Ethical Decision-Making: A Case for the Triple Font Theory. <i>Journal of Business Ethics</i> , 71(4): 395-410 (Arjoon, 2007)	
(6) Reconciling Situational Social Psychology with Virtue Ethics. <i>International Management Reviews</i> , 10(3): 221-243 Arjoon, (2008a)	
(7) Slippery when Wet: The Real Risk in Business. <i>Journal of Markets and Morality</i> , 11(1): 77-92 (Arjoon, 2008b)	
(8) An Aristotelian-Thomistic Approach to Management Practice. <i>Philosophy of Management</i> , 9(2): 47-64 (Arjoon, 2010a)	

LIST OF FIGURES AND TABLES

		Page
Figure 1	Thematic Overview <i>Ethics of the Good: An Aristotelian-Thomistic Approach to Decision-Making and Corporate Governance</i>	7
Table 1	Role of Virtue	27
Figure 2	Relationship among Principles: Centrality of the Human Person	62
Table 2	Relationship of Publications with Causes	81
Figure 3	Analysis of Causes of Failure	83
Table 3	Analysis of Causes of Failure: Categories	86
Table 4	Analysis of Causes of Failure: Proposed Solutions	87
Figure 4	Corporate Governance Arrangements	90
Figure 5	Role of Applied Ethics	110

CHAPTER 1

The Aristotelian-Thomistic Framework

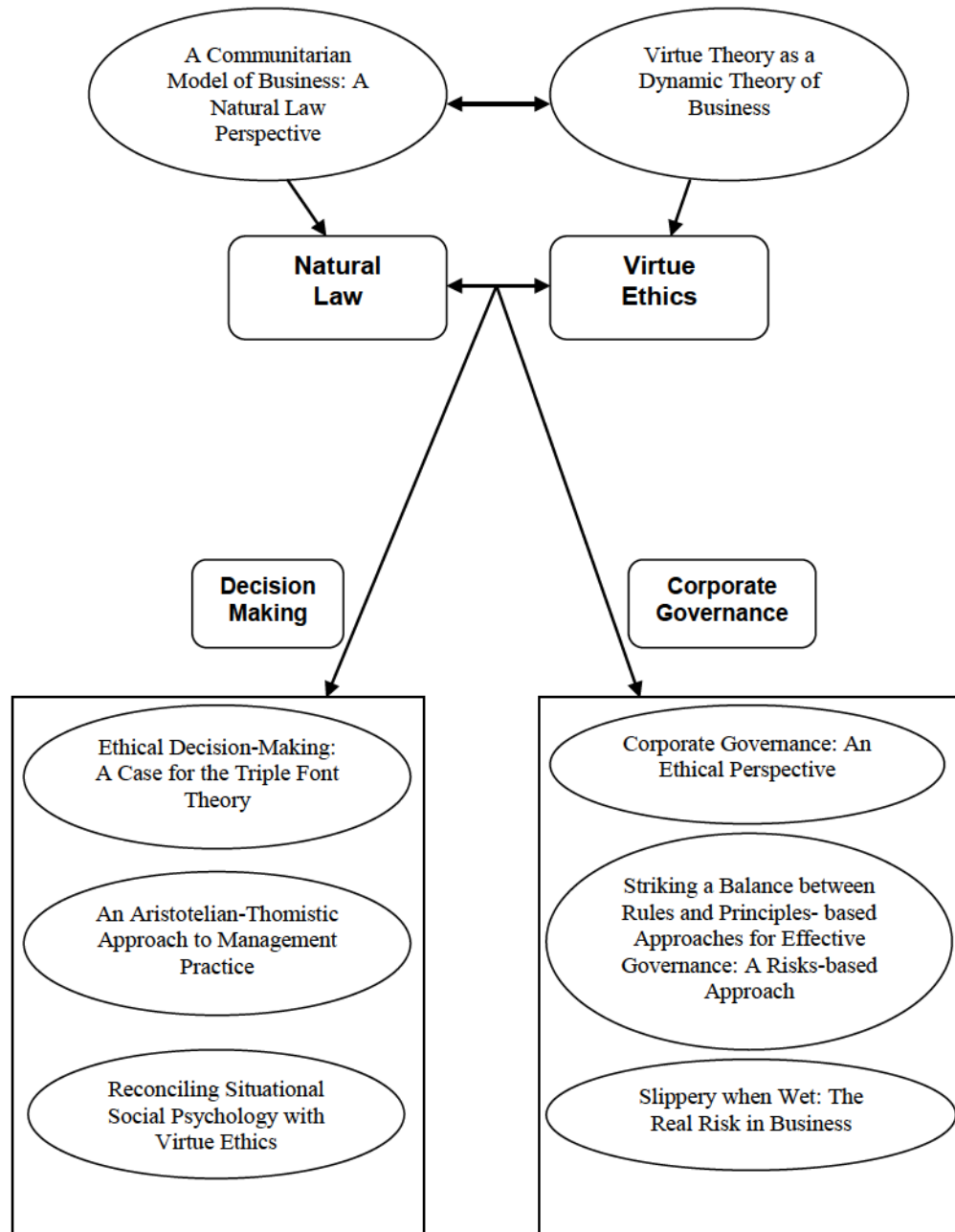
Overview of the Research Publications

Eight (8) articles (Appendix B), which comprise this integrative essay, are based on an Aristotelian-Thomistic approach that incorporate natural law and virtue ethics in analysing the causes of moral failings of corporate governance and ethical decision-making mechanisms (Figure 1): (1) *Virtue Theory as a Dynamic Theory of Business* (Journal of Business Ethics) proposes a meta-theory of business that links the concepts of virtues (identified as core competencies), the common good (identified as the mission of business), and the dynamic economy (grounded in the assumptions about the business environment); specifically, its main contribution lies in providing a comprehensive framework for understanding the role of virtues (as core competencies in institutionalising corporate ethical principles) and virtuousness (the proactive pursuit of aspirations to avoid wrongdoings and enhance organisational effectiveness and societal benefits) in promoting the common good (resulting in increased likelihood of a sustainable competitive advantage and creation of wealth) as a basis for ethical leadership and corporate social responsibility; (2) *A Communitarian Model of Business: A Natural Law Perspective* (Journal of Markets & Morality) offers a communitarian view of business (which represents a balance and order between the claims of the liberalist and socialist business models) in defining the business organisation as one that incorporates its social purpose that acknowledges the primacy of people over profits; specifically, its main contribution lies in supporting a socially-conscious business model that avoids the extremes of liberal capitalism (which some have argued bear much of the blame for the recent global financial crisis) and centrally-controlled model of social responsibility; (3) *Corporate Governance: An Ethical Perspective* (Journal of Business Ethics) makes the distinction between ethical and legal compliance approaches to corporate governance in arguing the necessity and importance of the former approach as a basis for an effective legal compliance culture; specifically, it promotes the development of trust and credible reputation in building investors' and consumers' confidence, employees' loyalty, and stakeholders' relationship; (4) *Striking a Balance between Rules and Principles-Based Approaches for Effective Governance: A Risks-Based Approach* (Journal of Business Ethics) highlights the drawbacks of an excessively heavy reliance on rules-based approaches to corporate governance such as Sarbanes Oxley; specifically, it promotes a risks-based approach that captures the benefits of both rules-based and principles-based approaches which emphasises the importance of strong ethical organisational cultures for leadership practices and personal behaviour in promoting regulatory compliance and social responsibility; (5) *Ethical Decision-Making: A Case for the Triple Font Theory* (Journal of Business Ethics) offers a comprehensive, systematic, practical approach to ethical decision-making that attempts to integrate virtue ethics into tradition act-oriented normative ethical theories; specifically, it highlights the role and understanding of practical wisdom in the proper application of the Principle of Double Effect;

Figure 1

Thematic Overview

Ethics of the Good: An Aristotelian-Thomistic Approach to Ethical Decision-Making and Corporate Governance



(6) *Reconciling Situational Social Psychology with Virtue Ethics* (International Journal of Management Reviews) attempts to reconcile the virtue ethics-situational social psychology debate through an Aristotelian-Thomism framework in overcoming the problems associated with inter-goal conflicts/imprecision and inadequate regulatory ideals; specifically, it provides a balanced view of the interaction between environmental influences and inner characteristics ; (7) *Slippery when Wet: The Real Risk in Business* (Journal of Markets & Morality) identifies factors that contribute to corporate deviant behaviour from both an individual and organisational perspectives within the framework of the Continuum of Compromise which recognises the different risk-attitude profiles associated with the potential for radical deterioration of socio-moral inhibitions and a perceived sense of permissibility for deviant conduct; specifically, it emphasises the importance of a strong ethical organisational culture developed through the practice of the virtues, and (8) *An Aristotelian-Thomistic Approach to Management Practice* (Philosophy of Management) argues that an Aristotelian-Thomistic humanism better promotes human dignity as it corrects the dysfunctional aspects and ethical deficits than its utilitarian naturalistic humanism counterpart; specifically, it elaborates the organisational policies and management practices under both humanism in arguing the importance of integrating Aristotelian-Thomism principles to provide stability and survival of the firm. These articles are grounded in an Aristotelian-Thomistic framework which is presented below.

The Aristotelian-Thomistic Framework

Ethics can be broadly classified into three (3) areas (Audi, 1997; Fisher & Lovell, 2009): *normative* (claims about what ought to be morally right or wrong), *descriptive* (claims about what is believed to be right and wrong), and *philosophical* or *meta-ethics* (claims about the nature of what is morally right or wrong). Within the normative framework, an Aristotelian-Thomistic approach can be referred to as the *Ethics of the Good* since its *telos* or goal is one's quest for the good (that promotes human flourishing). In this view, ethics can be considered a normative science (science as understood to be certain knowledge of things in their causes) of the oughtness (rightness or wrongness) of human conduct as known by reason which discovers, explains, and demonstrates the rules of right conduct. It is also a practical science since one must not only know and understand the norms for right living, but practice the art of right living.

The philosophical method of enquiry of journal articles submitted for examination which form this integrating essay is based on Aristotelian-Thomistic *realism*. This realism attempts to address the question of whether one can know the existence of a world outside the mind (that is, whether there exists anything outside the knowing subject), and if so, whether

there can be true knowledge of these things. Aristotelian-Thomistic realism is grounded in the idea that knowledge of things can be perceived by the mind which acquires data supplied by the senses that are in contact with reality¹. Such realism is based on notion of *the act of being* (that is, things have a specific way of being which also entails a concrete way of acting). Realism is often criticised because it is argued that it is not possible to get to know objective truth. This integrating essay proposes an Aristotelian-Thomism (which is presented below and includes the view of human nature it proposes, the account of natural law/virtue ethics, and the theory of the good) that provides the theoretical framework which forms the basis of the approach used in the journal articles submitted for examination, specifically, they provide a plausible basis for ethical decision-making and corporate governance in addressing and correcting dysfunctional aspects and ethical deficits of human and market behaviour. de Torre (1980) and Cessario (2001) provide more comprehensive views and insights into Aristotelian-Thomistic realism².

Aristotelian-Thomistic Humanism

Ultimately, every science and every attempt to evaluate human action have their roots in some philosophical basis, which itself depends ultimately on the view of human nature it proposes or specifies. Arjoon (2010a) presents the Aristotelian-Thomistic view of human nature³ (Figure 1, p. 55) which identifies the *appetites* (the word ‘appetite’ is derived from the Latin *appetere* which means to seek or desire) that are the source of the passions or emotions, the intellectual (the intellect whose object is reality) and the rational (the will whose object is the good) orders, and the role of the intellectual and moral virtues. Arjoon (2010b, p. 7-10) gives a more in-depth explanation of the nature and relationship among the various appetites

¹ The external senses (*seeing, hearing, tasting, touching, and smelling*) are in direct contact with material reality which supply data to the internal senses (*consciousness, memory, imagination, and instinct*) which produces *phantasm* (the sensible experience composed of sensations, perceptions, images, and recollections) which in turn actuates the intellect: this process by which the senses elaborate and communicate with the intellect is *apprehension* which is the first step in the process of understanding (de Torre, 1980, p. 164/165). In this view, ideas are the result of contact with reality (this presupposes union of body and soul) and not from innate or inborn ideas as maintained in a rationalist’s view.

² de Torre (1980) also critically evaluates other approaches to understanding reality which includes: *formalism* (the tendency to think of reality in terms of forms), *idealism* (the idea that reality depends on the human mind), *nominalism* (considers concepts in the mind as “names” without any real concept), and *voluntarism* (views the primacy of the will over the intellect and so emphasises subjectivity over objectivity).

³ In this view, the spiritual dimension of human nature is referred to as the *soul* (animating principle: that which gives life) which is the *form* of the body (matter); the soul animates the configuration of the powers and capacity of the body. The form makes the matter what it is (a cat, a dog, etc.), that is, it configures the powers of the body so that it can operate as this sort of thing (the form refers to much more than shape). Aristotle’s *De Anima* (which provides the philosophical sources for Aquinas) ends with a discussion of the intellect and will, the importance of self-knowledge (who we are) which leads to ethics and politics with their goal of happiness (accomplished by the set of human activities that is in line with reason).

and powers of this view of human nature which follows. The intellect (derived from the Latin *intelligere* which literally means ‘to read into’) allows one to understand the order of things through its power of discrimination and to know the being of what things are (their objects). It is described as a spiritual power (corporeal or immaterial, that is, independent of material conditions) since it enables one to know universal concepts through its power of reflection, abstraction, and understanding. It discovers self-evident principles of morality (*synderesis*) and applies them to discern right from wrong (*conscience*). It is actuated when it enters into contact with the environment indirectly through the external senses (seeing, hearing, touching, smelling, and tasting) which supplies data to the internal senses (consciousness, memory, imagination, and instinct). The will is the rational appetite that is necessarily driven toward what is intellectually-grasped as good or desirable (this may be a ‘real’ or an ‘apparent’ good⁴). It is the power to choose among rational alternatives and moves in response to the appeal of goodness in striving toward human flourishing. The will is therefore not a knowing power (the intellect presents the object to the will as good through practical judgment) and necessarily follows the ultimate practical judgment, but it is the will which decides in each concrete case whether such judgment is ultimate (in other words, the will determines itself). The will is also described as a spiritual power⁵ as it is not directly influenced by exterior objects, but only insofar as their appeal is accepted by the intellect judging on sense findings.

The passions are the moving principles or motive force behind most human acts and can be classified as: (1) *concupiscible or simple* (the tendency toward the good as enjoyable) and (2) *irascible* (the tendency of the good as difficult to attain). Aquinas (1981) identifies eleven (11) fundamental passions (all other emotional reactions are derivative of these): like and dislike, joy and sorrow, desire and aversion, hope and despair, daring and fear, and anger. The first six (6) corresponds to the concupiscible appetite and the last five (5) correspond to the irascible appetite, with anger the only passion not paired. The cardinal virtues moderate the passions in bringing them under the control of reason (passions rightly controlled by an

⁴ Fagothey (2000) notes that it is up to a person’s judgment to determine what things are good for them, but since human judgments are open to error, one may mistake an apparent good for a true good; if some lesser good makes the attainment of some greater good impossible, then this lesser good is not the true good (p. 34).

⁵ de Torre (1980) presents two arguments in demonstrating why the intellect and will are spiritual: (1) they perform an operation which reflect universal concepts (material cannot be “one in many” as universal is, for example, the essence of “bird” expressed in the concept of “bird”, is one, and still it is multiplied in many birds; this shows a complete independence from material conditions), and (2) the power of reflection of both can literally turn upon themselves (the intellect can understand its own understanding, and the will can will its own willing (this is not possible for material things, for example, the eye cannot see its own seeing unless it is reflected outside itself). Further, the intellect can abstract the essence of things perceiving what is permanent in them, that is, beyond matter (which is the principle of change) altogether (p.162/163).

intellectually-illuminated will are occasions of moral goodness): prudence and justice control operations; fortitude and temperance control passions. Arjoon (2010a, p.57) explains this process: (1) to act well, the intellect must be able to distinguish between a true from an apparent good, and present it to the will (this requires the habit of recognising the reasonable thing to do in all concrete acts which is the role of the virtue of prudence), (2) a person's will requires a special habit to respect the rights and goods of others (which is the role of the virtue of justice), (3) one must be able to restrain oneself from acting unreasonably in the face of difficulty or danger (this requires the virtue of fortitude which enables one to act reasonably), and (4) one needs to restrain oneself within reason in pursuing sensible goods, for example, in eating and drinking (the virtue of temperance moderates this concupiscible appetite). Finnis (1998) defines virtue as the perfection of the human capacities involved in action (that is, the powers of understanding and responding to intelligible goods, and of choosing and carrying out one's choices well) – a perfection which involves bringing those powers of intelligence, will, and emotion into co-operative harmony with each other and with human goods (p. 107/108).

Aristotelian-Thomistic Notion of Freedom

Aquinas (1981) describes human freedom as that property of the human will whereby one determines oneself in one's acts towards the end. Freedom then is the capacity that all persons have to choose the appropriate means for the attainment of their end and which tends to this perfection. Freedom resides in the will that chooses; it is in the will acting according to the light of reason received from the intellect (the intellect presents things to the will, and the will chooses). The will therefore cannot operate without the intellect. The metaphysical root of this freedom lies in the pursuit of the good which is object of the will. The experience of free choice begins with an awareness of conflict. One finds oneself in a situation where it is impossible to pursue all the goods with which one is concerned. The existence of freedom of choice in the human will (and consequent moral responsibility) may be demonstrated by appealing to two types of evidence (Fagothey, 2000): (1) the evidence of self-consciousness: one can verify within oneself that when one chooses, one could perfectly well have chosen other alternatives if one only wanted to, and (2) the evidence of an acceptance of a moral code (for example, professional codes of conduct). The 'choice' of evil consists not in wanting a certain good, but in wanting it in a disorderly way (disorderly because the order of means to an end is disrupted). Therefore, the choice to do wrong is an abuse of freedom (this reflects the imperfection of freedom whose perfection lies in pursuing the good) and makes one less free.

The will must of necessity adhere to the last end which is happiness, since the end is in practical matters what the principle is in speculative matters. At the heart of every movement there is a basic principle from which movement takes its beginning. To every process of mind and will, the principle set down has a fixed point as its beginning. By nature, neither the intellect nor will can be unprincipled; each is bound by a principle. In other words, the will, like the intellect, has from its very nature a certain necessary determination which is presupposed to any indetermination. The intellect cannot be free in the sense of not being bound by truth. As the intellect must be rooted in a principle that is truth, so must the will be rooted in a principle that is goodness. It cannot act at all except for goodness (things are done for goodness which is sought as the final object of every movement of the will). Goodness then is what attracts the will; it is that which all things desire and is always the motive of one's actions. Although people differ in their judgment of what is good, one necessarily wills happiness and whatever will make one happy. If one is convinced that there is for one only one way to happiness, then one cannot but choose that way. For a more detailed discussion of the Aristotelian notion of freedom⁶ see Doolan (1954), Higgins (1992) and Fagothey (2000).

Aristotelian-Thomistic Natural Law/Virtue Ethics

A major theme in contemporary discussion of ethics is the dissatisfaction with the condition of moral theories which are not able to provide a plausible account of the rich diversity of moral life. Boyle (1995) points out that the chief representatives of ethical theory (utilitarianism, Kantianism, and various forms of contractualism) are believed to be excessively abstract and are held incapable of providing a plausible account of the rich diversity of moral life (see also Williams (1983) and MacIntyre (1984)). Today, scepticism about one's ability to know anything for certain suffuses and promotes a culture of relativism and subjectivism, with the morally unhealthy personal and public consequences which follow from such belief (Lewis, 1995: 72-81; Posner, 1998). In particular, Grisez and Shaw (1988) argue that relativism and subjectivism make ethics a virtual impossibility since they deny in principle that moral judgments can be simply true or false: *We are free to choose what we will*

⁶ Different notions of freedom are distinguished according to specific factors or considerations. For example, different schools of thought of *determinism* view choice as depending on: (1) *physiological determinism* (the biochemistry of the body), (2) *sociological determinism* (cultural values to which one has been exposed), (3) *economic determinism* (economic infrastructure), (4) *fatalistic determinism* (fate), (5) *theological determinism* (God determines the choice), and (6) *psycho-analytical determinism* (choices are determined by the basic *complexes* of a person; a combination of *libido* and accumulated experiences of the past).

do. But we are not free to make whatever we choose right. We must follow our best judgment concerning what we ought to do. But our best judgment can be mistaken (p. 66). They are therefore not adequate guides in the task of directing and judgment human actions.

Previously, through *nominalism* (William of Ockham: 1295-1349), moral analysis focussed on the relationship between law and freedom (the former through obligation was given priority) which resulted in moralities of obligation, duty, and moral imperatives. The treatise on happiness and the destiny of the human person were marginalised. This sparked a renewed interest in Aristotelian-Thomistic moral theory which was initiated by Elizabeth Anscombe (1958) and Alisdair MacIntyre (1984). Both expressed dissatisfaction with the prevailing moral philosophies which neglected concepts such as virtue and practical reason, and did not take into account all the facets of human existence with quite the same appreciation of both the particular circumstances of a one's actions and the abiding truths of one's destiny or end. They advocate a philosophical psychology and sociology in building a normative moral theory. Aristotle's (1962) *Nicomachean Ethics* analyses the role of moral agency, reason (speculative reason with its end or *telos* of 'truth' and practical reason with its goal of 'good') and other moral virtues along with first principles of morality (as proposed by natural law). Aquinas (1981), in his *Summa Theologica*, develops further insights on the work of Aristotle. Aristotle's association with natural law is due largely to the interpretation given to his work by Aquinas. A major advantage of the Aristotelian-Thomistic approach is that it combines both an act-based or principles-based ethics (from the perspective of natural law principles which consider the key question: *what shall I do?*) and an agent-based ethics (from the perspective of virtue ethics which considers the key question: *who shall I be?*).

This integrating essay is entitled: *The Ethics of the Good* since the good or aim of the moral life under the Aristotelian-Thomism framework is based on a fundamental understanding of what constitutes the 'good' life: natural law requires one to seek one's last end of human flourishing or happiness (Aristotle adopted the word *eudaimonia* and Aquinas *beatitudo* or *felicitas*) and virtue ethics requires one to seek the appropriate means to achieve that end (both approaches can be viewed as two sides of the same coin). The direct link between natural law and virtue ethics stems from the first principle of practical reasoning derived from natural law: 'do good and avoid evil' which conforms to the virtue ethics criteria: 'be virtuous and avoid vices' (Arjoon, 2005b). The general precepts of the natural law provide the cognitive foundation for the morally significant knowledge achieved connaturally

in a virtuous life: virtues perfect these precepts as they perfect the inclinations they govern (Cessario, 2001). There is therefore an intimate relationship between natural law and the virtues: it is through natural law that one is educated in the life of virtues and it is through the virtues that the natural law is rendered morally efficacious. Cessario (2001) remarks that no account of natural law is complete without an analysis of the virtues. Hittinger (1995) elaborates on the relation between natural law and virtue.

Natural Law

Arjoon (2010a) traces the development and the main schools of thought of natural law theory that have emerged in the course of history. Two (2) broad concepts can be discerned: (1) *individualistic* (stresses individual traits and emphasises the autonomy of human reason; proponents include Hugo Grotius (1583-1645), Thomas Hobbes (1588-1679), John Locke (1632-1704), and Samuel von Pufendorf (1632-1694) who all incorporate this view of natural law into political thought as the basis for the doctrine of universal human rights), and (2) *metaphysical* (rooted in the belief in eternal law, that is, the law by which God governs the universe) which proposes that there exists some norms of right and wrong which admits no exception, that there is such a thing as unjust laws, and that there are obligations and sanctions for obeying or transgressing the eternal law; proponents include Thomas Aquinas (1225-1274), Francesco Vittoria (1492-1546), Robert Bellarmine (1542-1621), Francisco Suarez (1548-1617), and Gabriel Vasquez (1549/1551-1604). Three (3) main schools of thought have emerged: (1) *traditional* (whose foundation consists in one's awareness of self-evident truths with its claim to binding force and on the social order to provide for fully integrated human existence), (2) *idealistic* (which seeks to understand legal reality only in terms of the mind and its world of ideas), and (3) *materialistic* (which views all order in the world as the order of the material universe). The Aristotelian-Thomistic account is developed from both the traditional and metaphysical views.

Fagothey (2000) and Arjoon (2010a) identify four (4) levels in the knowledge of the Aristotelian-Thomistic view that can be distinguished: (1) the first moral principles – the *principle of practical reasoning* (good is to be done and evil is to be avoided), the *principle of non-contradiction* (it is impossible for a thing to be and not to be at the same time and in the same respect), and the *principle of identity* (a thing is always what it is); these principles are considered to be self-evident truths which cannot be invincibly unknown to anyone who has use of reason, (2) *common general principles or moral axioms* are based on the first moral

principles of and are expressed as one's natural inclinations to preserve one's being (as reflected in the desire to exist, love of health, right to self-defence, respect for human life and goods, advances in health care and medicine, etc.), to yearn for the good (as reflected in treating others with fairness, respecting others' property, refraining from theft and fraud, etc.), to procreate (as reflected in the desire to sustain the human race, to care for one's offspring, for conjugal union between man and woman geared toward the generation and education of their offspring, etc.), to yearn for the truth (as reflected in the desire to be truthful, to adore God, etc.), and to live in communities and societies (as reflected in the desire to work, to foster the development of political societies and other types of associations which stem from a person's social nature, to communicate as an expression of human sociability, to develop knowledge of the different forms of art and culture, etc.), (3) *reasoned conclusions* which can be invincibly unknown even by intelligent persons (these are sometimes referred to as *tertiary precepts* and are derived from a process of reasoning from the common general principles), and (4) *particular applications* of the principles in concrete cases in which normal mature persons may err (such misjudgements do not mean that decision-makers are not aware of the principles but only that they may be inexperienced or misunderstood in their application). Fagothey (2000) further points out that self-evident principles and precepts mean that one recognises them as intrinsically certain and therefore universally valid as soon as their meaning is grasped by experienced; also, they are obligatory (absolute and without exception) insofar as they signify a claim on one's self-determination. Widespread ignorance of the general principles would make living in society disastrous, while ignorance of remote conclusions is not as devastating (p. 181). The natural law is found in all people since they all recognise the force of the first principle, however, the derived precepts may not be recognised or understood by all because of ignorance, pride or passion, all of which affects one's judgment.

A person's nature is itself a guide to right and wrong is the fundamental tenet of natural law. Fagothey (2000) points out that natural law is so-called because it is promulgated to a person through one's rational nature (in other words, one discovers the natural law by the use of one's reason in drawing conclusions about one's own nature which possesses faculties for forming ideas and judgments). The natural law can be considered *formally* (actual judgments of practical reason on what ought to be done or not done) or *virtually* (the natural law exists virtually in every rational being even before one's reason is sufficiently developed for making moral judgments; as one advances in the use of reason, the natural law passes from

the virtual state to the formal state) (p. 174/175). In the Aristotelian-Thomistic framework⁷, natural law can be defined as the set of rational laws which expresses the ordaining of natural tendencies or inclinations toward one's end. It can be viewed as the set of precepts of natural reason which regulates human actions with a view toward the end of that person.

Two (2) main objections can be raised against the above conception of natural law. First, how can one come to know the general determinations of the first principle of practical reasoning? Finnis (1998) notes that although the first principles are *indemonstrable* and *self-evident*, this does not mean that they are data-less intuition, felt certainties, that one cannot be mistaken about them, or that they cannot be defended by rational considerations. Indeed, he points out that Aquinas firmly holds that it is understood by what he calls *induction of principles*: to reach knowledge of it, one needs sensory experience and memory; it is not grasped as conclusions from reasoning, but it can be defended by dialectical arguments (for example, it points out to sceptics the way in which their own deliberations and actions are directed by their understanding and acceptance of reasons for action, p. 88). Lewis (1980) observes that when people are quarrelling they say things such as: *How'd you like it if anyone did the same to you? That's my seat, I was here first. Leave him alone, he isn't doing you any harm. Why should you shove him first. Give me a bit of your orange, I gave you a bit of mine. Come on, you promised* (p. 17). Lewis (1980) concludes that all these remarks are appealing to some kind of standard of behaviour that one expects the other to know about (quarrelling is a means to show that the other person is wrong).

de Torre (1980) also illustrates how the first principles of reasoning can be revealed using elementary concepts such as being and non-being. The first judgment would state that being is not non-being which reflects the *principle of non-contradiction* (two contradictory statements cannot be both true in the same sense). Since contradiction is impossible, such judgment is self-evident and is implied in every other judgment. de Torre (1980) concludes that the principle of non-contradiction along with the logical second *principle of identity*⁸ (a thing cannot be itself and another in the same sense, that is, a thing is always what it is) are all the time assumed in day-to-day conversation and in every science (p. 47). They are self-

⁷ Aristotle (384-322) is sometimes credited as 'Father of Natural Law' and holds that there are standards for judging whether a law is in accord with nature (though he simultaneously asserted that some groups of humans were less than fully human). Thomas Aquinas (1226-1274) distinguishes between natural and supernatural sources of morality and law.

⁸ These principles are referred to as the *first principles of speculative reasoning*.

evident in that they are not approved or discussed, but just taken for granted. With the practical presupposition (good is to be done and pursued, and evil is to be avoided⁹) in mind, one experiences tendencies and understands in them possibilities which could be satisfied by action, therefore one forms, naturally and without reflection, the truth that *such-and-such is good* (Grisez, 1983, p. 196). A practical truth grasped in this way is so basic and so obvious that it is seldom stated expressly or considered by itself (for example, one who becomes aware that food is becoming scarce, thinks that one must try to ensure their supply; underlying this thought is awareness of a fact that food is necessary for survival which implies the practical truth that *life is to be preserved*)¹⁰. The second major objection against natural law is that it may be guilty of the same criticism it accuses its rivals and so it appears to fall into the abyss of relativism, that is, it appears to be tautological: *one's judgement depends on how one is*. Aquinas (1981, I-II, q.9, a. 2) agrees with this position in quoting Aristotle (1962, III, 5): *According as a man is, such does the end seem to him*. Hittinger (1999) concludes that natural law can only be rescued and completed by reintegrating it into the dogmatic theology of revelation¹¹. For example, Pinckaers (1995) takes the *Ten Commandments* as the starting to interpret natural law and examines the *Sermon on the Mount* (the Beatitudes) in relation to the sources of morality.

Virtue Ethics

Numerous scholars have contributed to the resurgence of interest in virtue ethics: Wallace (1978), Foot (1981), MacIntyre (1984), Meilander (1984), Hutchinson (1986), French et al. (1988), Nussbaum (1990), Porter (1990), Cessario (1991), and Slote (1992). Recently, Curran and Fullam (2011) dedicate an entire issue on the Aristotelian-Thomistic tradition of virtue ethics. Virtue theory holds that the foundation of morality lies in the development of good character traits. As an agent-based theory, virtue ethics' main appeal is that it adds to a richer account of the moral life that complements act-based deontological (with a focus on obligations) and teleological (that places a priority on consequences) moral theories. However,

⁹ This is known as the *first principle of practical reasoning*.

¹⁰ Grisez (1983, p. 124) gives other examples of this observation that demonstrate the line of enquiry until one comes to a normative principle which seems obvious: *Why are you working? To make money. Why do you want money? I have to eat. Why bother about eating? Don't be silly. I'll die if I don't*. This sort of enquiry ought not however to be accepted uncritically since one can answer: *For fun*.

¹¹ Hittinger (1999) also notes that in 1991, Senator Joseph Biden took the position that the Judiciary Committee should explore whether Judge Clarence Thomas held a *good* (support for individual rights of immunity against morals legislation on matters of personal sexual conduct) or *bad* (codes of behaviour that dictates morality to us instead of leaving matters to individual choice) theory of natural law. Aristotelian-Thomism natural law would be regarded as bad natural law in this view.

rather than viewed as an alternative theory, virtue ethics can therefore be integrated into act-based theories since it has the capacity to inspire excellence in practice (Arjoon, 2007). Virtues are concerned with both passions (which set the practical situation) and actions (which provide the platform for how one responds to it). Agents act virtuously if their choices proceed from firmly established dispositions through deliberating well in responding to particular situations by choosing certain actions that would lead to eudaimonia or human flourishing. This flourishing consists in the realisation of the moral virtues (which constitutes a specific medial character state between the extremes of deficiency and excess) adjudicated through the intellectual virtue of prudence (also known as practical judgment or practical wisdom). Virtues are grounded in the rational appreciation of what it means to live a morally-good life and are enduring qualities of character through which one is able to act in a praiseworthy way. They require repetition of acts as each act disposes one to perform the next with ease. This involves the proper adjustment of the passions or sense appetites with reason. Virtue is a state of character concerned with choice; it emphasises consistency and integration within the agent's motivations. Virtues then are strengths that enable people to flourish as complete moral individuals, and virtuous actions proceed from a firm and unchangeable character. Virtuous persons can sometimes act wrongly while still remaining virtuous (to act virtuously involves doing what one thinks is right, but this may actually turn out to be wrong). For example, in attempting to resolve difficult moral issues, because of the complexity of the decision-making environment, virtuous agents may err in their judgment; however, they should still be praised for acting virtuously. Curzer (2005) identifies several distinct ways in which fully virtuous persons can act out of character. A distinction is also to be made between acting merely in accordance to moral standards (this implies that virtues are derived from principles) and acting from virtue (this implies that virtues are required to realise moral standards). In the case of the former, an agent may perform the right action in the wrong way (for example, from a narcissistic self-interest motivation); such action has no moral worth as it is a moral transgression based on the sources of morality (Arjoon, 2007).

The major advantages of virtue ethics is that it is personal in that it focuses on the agent's motivations as the source of action, it complements other disciplines addressing human behaviour (for example, virtue ethics is more firmly grounded in psychology than other moral theories), and it highlights the importance of the concrete social context in which the action is performed. Whetstone (2001) summarises the major benefits of virtue ethics: (1) it is personal, (2) it focuses on motivations of the decision-maker and sources of action, and brings

a dynamic to ethical understanding, (3) it is contextual, highlighting the importance of understanding the environment as it affects both the decision-makers and their actions, and (4) it complements other disciplines addressing human behaviour. Oakley and Cocking (2006) outlines six claims which seem to be essential features of any virtue ethics view: (1) an action is right if and only if it is what an agent with a virtuous character would do in the circumstances (this is a claim about the primacy of character in the justification of right action), (2) goodness is prior to rightness (rightness is defined in relation to goodness), (3) virtues are irreducibly plural intrinsic goods (each of them is valuable in a way which is not reducible to a single overarching value), (4) virtues are objectively good (they are good independently of any connections which they may have with desire), (5) some intrinsic goods are agent-relative¹² (for example, friendship and integrity are held to be agent-relative, while justice is agent-neutral), and (6) acting rightly does not require that one maximises the good.

Flemming (2006) notes that virtues are firmly grounded in psychology since part of becoming virtuous is acquiring some key and common characteristics of psychological health: virtuous agents are aware of their strengths and weaknesses (they know and accept who they are and what they ought to become, that is, they exhibit self-awareness and self-acceptance), they are aware of morally-significant aspects of their circumstances (for example, they can identify with the pain and suffering of others, the ability to identify narcissistic behaviour, etc.), and they are able to manage an emotional and desiderative balance that avoids the mental consequences of repression, denial, anxieties, fears, and other excesses. Sandage and Hill (2001) also identify some congruence between virtues and (positive) psychology: promotion of mental health through the development of character, connection to community well-being, cultivation of human strength and resilience, grounding in wisdom, and link to the meaning of life (moral-selfhood). With respect to moral-selfhood, Punzo (1996) identifies six (6) features that link virtue and moral-selfhood, and which provides a theoretical framework that is amenable to empirical investigation of the nature and formation of moral-self: (1) virtues, rather than rules, constitute the primary area of interest, (2) practical reasoning, rather than meta-ethical reasoning, is the focus, (3) moral perception is a prominent feature, (4) emotions are acknowledged as integral components of the agent's moral vision and response,

¹² To describe a certain good as agent-relative is to say that its being a good of mine gives it additional moral importance to me, in contrast to agent-neutral goods which derive no such additional moral importance from being goods of mine (Oakley & Cocking, 2006, p. 23).

(5) selfhood and morality are recognised as interwoven constructs, and (6) the view of the virtuous self as an interdependent self.

Both Aristotle (1962) and Aquinas (1981) identify two (2) categories of virtues in accordance with the division of the soul (the soul is form to the body's matter and not two separate entities): *intellectual* (virtues which perfect the intellect acquired through instruction and geared toward the goal of achieving excellence in reasoning and truth) and *moral* (virtues which perfects the will developed by practice and geared toward achieving excellence in living a morally-good life). The intellect is endowed with three (3) virtues which assist to perfect its speculative or theoretical activities: (1) *nous* (understanding or intuition) – the habit of first applying the first principles of thinking which gives one the ability to grasp or be aware of self-evident truths without the effort of discursive reasoning (this virtue is sometimes referred to as 'common sense'), (2) *sophia* (wisdom) – the habitual knowledge of understanding fundamental truths and knowledge of things in their ultimate causes consisting of an ordering of all principles and conclusions into one body of truth, and (3) *episteme* (science) – the habit of possession of truth reflected in the ability to grasp conclusions in some specialised knowledge as demonstrated by evidence or by proof; and two (2) which assist to perfect its practical activities: (1) *techne* (art) – the habitual knowledge of how to make things useful and properly, reflected in the ability to choose efficient means to affect external productions and (2) *phronesis* (prudence or practical wisdom) – the habit of knowing how to act morally-upright in concrete situations reflected in ability to apply reason to human judgment through the discernment of the *telos* (end) of human conduct and to choose the proper means to attain this end (Arjoon, 2010a).

Moral virtues are habits which operate under the direction of the will (whose function it is to obey right reason) and equip a person to act in accord with reason. Arjoon (2010a) points out that there are many moral virtues as there are specifically different morally-good acts, but they are all reducible to three (3) core virtues: (1) *justice* (the habit of giving others what is due to them), (2) *fortitude* (the habit of dealing effectively with difficult situations), and (3) *temperance* (the habit of self-mastery or discipline over one's tendencies for laziness, complacency, and disordered appetites). Together with practical judgment, these four (4) virtues are known as the *cardinal virtues* through which all other moral virtues are 'hinged'. It is important to note the operational relationship between practical judgment and the other moral virtues. Moral virtues are necessary because they control the appetite or motive force of

desire by making effective the commands of practical judgment (Arjoon, 2007). Moral virtues, therefore, are the foundation and precondition of practical judgment (for example, the moral virtue of courage will facilitate the decision-maker to judge correctly particular situations and not act out of ignorance), though practical judgment is the prerequisite for the appropriate realisation of the good (only one who exercises practical judgment can do so) since it enables one to discover the correct application of the moral virtues in acting morally-upright in concrete situations (Pieper, 1991). The cardinal virtues are required for the realisation of the human capacity for being.

An intellectually-virtuous agent is motivated by and takes delight in attaining cognitive or intellectual ends such as truth, understanding, wisdom, and rationality; while a morally-virtuous person is motivated by and takes delight in attaining morally-good ends such as justice, responsibility, and self-mastery. Pieper (1991) points out that intellectual activity does not make one unqualifiedly good, but good in a restricted sense since a person of low intelligence can be prudent (the acquisition of practical judgment does not so much depend on one's intellectual ability as much as in the strength of one's will). Pieper (1991) also points out that considered in themselves, the intellectual virtues are more excellent than the moral virtues since they pertain to the intellective aspect of the agent while the moral virtues regulate the passions which belong to the sensitive aspect; considered from the perspective of the service which they render to the agent, the moral virtues are more excellent since they facilitate attaining the agent's last end. Moral conduct therefore does not primarily lie in developing the intellectual virtues, but the moral ones (Arjoon, 2010a). A virtuous life entails perfecting *human nature as it is* (characterised by its susceptibility or proneness to error¹³) and pursuing *human nature as it ought to be* (characterised by its natural inclination toward the acquisition of truth and goodness); such a life is based on the knowledge of what is true (promoted by the intellectual virtues) and good (promoted by the moral virtues) which harmoniously regulate one's emotional life.

There have been several criticisms and objections to virtue ethics. For example, Prinz (2009) in appealing to an extensive look at the cultural variance of virtues, argues that no list of virtues does or could possess a univocal nature necessary for the virtues to carry any normative force (this refers to the problem of cultural relativism). He concludes that virtue

¹³ This susceptibility or proneness to error (*formes peccati*) is not part of one's nature but rather stems from the defect or imperfection in human nature

ethics lacks normativity and therefore it is not a distinct alternative to rules-based approaches. Other major theoretical problems (Oakley & Cocking, 2006) include *eliminativism* (which refers to the lack of clear-cut rules for action-guidance through the exclusion of principles-based criteria) and *essentialism* (which refers to difficulty and obscurity of the conception of eudaimonia or human flourishing in determining the correct way to live and for society to develop). Other criticisms (Whetstone, 2001) include: (1) the apparent vagueness of the concept of *eudaimonia*¹⁴ (it's difficult and obscure), (2) the idea that different virtues may sometimes point to conflicting actions (this argues against the *evaluative integrative thesis* or unity of the virtues), (3) it promotes a cultural relativism because different people and culture can consider different character traits as virtues, and (4) that virtue ethics is inadequate on a stand-alone basis. In order to address these objections and criticisms, in particular, the challenges of eliminativism and essentialism, this integrating essay suggests that virtue ethics is best understood through the regulative ideals provided by an Aristotelian-Thomistic natural law-virtue ethics framework (Arjoon, 2008a). The main challenge for virtue ethics, however, comes from situationist social psychology which at one extreme viewpoint denies the existence of virtues as robust character traits. This objection is discussed in Chapter 5 (*Virtue Ethics/Situationism Debate*) which updates the arguments presented in Arjoon (2008a).

Theory of the Good

Aristotle (1962) defines the *good* as “that at which all things aim at” (Bk. I, Ch. 1, 1094a 3) and the *end* as “that for the sake of which a thing is done” (*Metaphysics*, Bk V, Ch.2, 1013a 33, <http://classics.mit.edu/Aristotle/metaphysics.ht>). Every end therefore is a good and every good is an end. Aquinas (1981) refers to this as the *Principle of Finality*: every agent acts for an end (I-II, q. 1, a. 2). Good is therefore defined in terms of the end to which something or someone moves or is aimed at. A thing may be intended: (1) for its own sake (in which case it is an end), (2) for the sake of something else (in which case it is a means), (3) for both means and end (in which case it is an intermediate end), and (4) for its own sake and not for the sake of anything further (in which case it is a last or ultimate end). Since the end and the good are inter-definable, a being's last end must also be its highest good. Aquinas (1981) argues that each individual person has one last end (if there were several last ends, then having attained any one of them, one could still desire the others) and the same end (based on the

¹⁴ Views that include eudaimonia are: *hedonism* (egoistic pleasure in seeking the greatest enjoyment here and now), *utilitarianism* (seeks the greatest happiness of the greatest number by its utility in promoting the common good), *stoicism* (virtue is one's last end), *evolutionism* (one's end is toward an unknown higher state of self-realisation attained through conflicts).

argument that all people have the same (spiritual) human nature¹⁵: the same needs, tendencies, appetites, desires, or abilities craving satisfaction (I-II, q. 1, a. 5)). One is called morally-good if one's life is directed to one's last end, and one's acts are called morally good if they lead one to the last end. Aristotle gives the name *eudaimonia* (according to MacIntyre (1998), this term is roughly translated as happiness or human flourishing which includes both the notion of behaving well and the notion of faring well) to the last end which is at the same time one's highest or supreme good. The concept of happiness is a self-sufficient good (it is not a component in some other state of affairs nor is it one good among others) and is connected with those things which are popularly thought to constitute happiness: virtue, pleasure, and external goods (MacIntyre, 1998). Grisez (1983) argues that goodness lies in a fulfilment of potentialities which leads to being and being more (it is fullness of being), while badness lies in the realisation of a potentiality which cuts off further possibilities and tends to limit opportunities for self-realisation which would otherwise be open to an entity (privation). This begs the question: what goods or activities should one pursue to achieve happiness?

It is from the first moral principles of reasoning which identify basic human goods in directing one's actions toward one's last end or happiness. Aquinas notes that to understand a possibility as good is to understand it as an intelligible purpose (object of interest or inclination) which includes the inclination to self-preservation, preservation of the species through sexual union, knowledge of the truth and the good, and living in community (MacIntyre, 1998). Grisez and Shaw (1988) identify eight (8) categories of basic human goods that contribute to human flourishing: (1) *life* (includes health, safety, avoidance or removal of pain, procreation and nurturing of children, etc.), (2) *speculative knowledge* (knowledge sought for its own sake), (3) *aesthetic experience* (appreciation of beauty), (4) *skilful performance* (includes play and work), (5) *integrity* (harmony within oneself), (6) *practical reasonableness* (harmony between oneself and one's actions), (7) *friendship* (harmony with others), and (8) *religion* (harmony with "more-than-human ultimate source of meaning and value"). It is possible to understand the first four without reference to action (they are called *substantive or non-reflexive goods* since they are not defined in terms of choosing, but they provide reasons for choosing which can stand by themselves), while the last four refer to group of goods whose meaning inherently implies human action (they are called *reflexive*,

¹⁵ Here one can make a distinction between *individuality* and *personality* in human nature: the former is rooted in materiality (biochemical composition determining one's temperamental traits) and is subject to change, while the latter is rooted in spirituality (will and intellect) and is immutable (de Torre, 2005).

relational or existential goods because they fulfil one insofar as one makes free choice). The goods are called basic since other goods are seen to be no more than aspects or combination of aspects of these basic goods (*irreducibility*) and that they reflect one's inherently complex human nature corresponding to all dimensions personhood (*complexity*); they perfect persons and contribute to their fulfilment. Substantive goods are required both for a morally-good life and as means for the relational goods. It is important to note that these basic human goods are aspects of the person and not realities apart from persons.

CHAPTER 2

Development and Scholarly Contribution of the Publications submitted for Examination

As indicated in Chapter 1, this integrating essay is based on an Aristotelian-Thomism in exploring ethical decision-making and corporate governance mechanisms to address issues of corporate deviant behaviour, and ultimately, human flourishing or fulfilment. The motivation behind the journal articles submitted for examination is driven by what is termed the *social question* which arises from the failure of the social order to realise the common good with the result that social groups are unable to share proportionately in the fruits of social cooperation (Messner, 1965). The economy or market system has an essentially social function as it is embedded in society and culture, and so ought to be understood as a specific social system. With respect to the business world, the social question arises because of the failure to effectively apply appropriate ethical principles in implementing and monitoring policies to improve ethical behaviour and for practically-wise decision-making in the workplace. Fundamental to the social question as it relates to business is *why good people (managers and executives in particular) make morally-bad decisions*. The integrating essay proposes an Aristotelian-Thomistic framework to address the social question. The social question therefore becomes the *anthropological question*: who or what is the human person? Chan et al. (2010) identify this author as one of the leading business ethics scholars (ranked #47 globally) based on publications in ten (10) selected leading business ethics journals during the period (1999-2008).

The following eight (8) journal articles, which have been cited two hundred and twelve (212) times, forms the basis of this integrating essay:

- (1) Virtue Theory as a Dynamic Theory of Business. *Journal of Business Ethics*, 28(2): 159-178 (Arjoon, 2000).
- (2) A Communitarian Model of Business: A Natural Law Perspective. *Journal of Markets & Morality*, 8(2): 455-479 (Arjoon, 2005a).
- (3) Corporate Governance: An Ethical Perspective. *Journal of Business Ethics*, 61(4): 343-352 (Arjoon, 2005b).
- (4) Striking a Balance between Rules and Principles-Based Approaches for Effective Governance: A Risks-Based Approach. *Journal of Business Ethics*, 68(1): 52-83 (Arjoon, 2006).

- (5) Ethical Decision-Making: A Case for the Triple Font Theory. *Journal of Business Ethics*, 71(4): 395-410 (Arjoon, 2007).
- (6) Reconciling Situational Social Psychology with Virtue Ethics. *International Management Reviews*, 10(3): 221-243 (Arjoon, 2008a).
- (7) Slippery when Wet: The Real Risk in Business. *Journal of Markets & Morality*, 11(1): 77-92 (Arjoon, 2008b).
- (8) An Aristotelian-Thomistic Approach to Management Practice. *Philosophy of Management*, 9(2): 47-64 (Arjoon, 2010a).

Based on these publications, the followed research questions are examined:

- (1) What is the essence of human nature? Is it purely materialistic or does it include a spiritualistic aspect? Are human beings free? Is human nature good or bad? (Arjoon, 2010a)
- (2) What ought to be the ultimate goal of the firm? Can profit-driven strategies be reconciled with ethically-driven strategies (including corporate social responsibility and leadership)? (Arjoon, 2000)
- (3) How can situational social psychology be reconciled with virtue ethics? How can one be truly virtuous in a world characterised by the allurements of powerful situational forces and ideologies? (Arjoon, 2008a)
- (4) How can agent-based ethics (in particular, virtue ethics) be integrated with act-oriented or principles-based ethics? (Arjoon, 2007)
- (5) Why is it that so many well-respected corporate leaders and top executives (rational beings) cross moral boundaries with or without fear of disastrous consequences for their (irrational) actions, especially when the right thing to do seems readily apparent? In other words, why does so much folly and unreason exist? (Arjoon, 2008b, 2010a)
- (6) What are the key drivers, determinants or causes of unethical behaviour and unethical decision-making? Was the recent global financial meltdown the result of narcissistic behaviour, corporate greed and collusion, or were companies driven by market forces which they were unable or unwilling to resist? (Arjoon, 2006, 2008a, 2008b)
- (7) What is the role of practical judgment and other virtues in business and ethical decision-making? (Arjoon, 2000, 2007, 2008a, 2010a)
- (8) Do we need a radical overhaul of corporate governance mechanisms or can companies be relied upon to regulate themselves? Can regulations keep up in dealing effectively with scandals to achieve greater trust and confidence? Can ethical standards be improved

without introducing additional legislations that can foster further regulatory burdens? Is there an optimal balance between rules-based and principles-based approaches for effective governance? (Arjoon, 2005b, 2006)

(9) Do the solutions lie outside liberal capitalism (or socialism)? Does an Aristotelian-Thomistic communitarian model provide an effective third way¹⁶? (Arjoon, 2005a)

Two papers lay the theoretical foundation for the project: (1) *Virtue Theory as a Dynamic Theory of Business* which incorporates virtues ethics in developing a meta-theory of business, and (2) *A Communitarian Model of Business: A Natural Law Perspective* which develops a natural law philosophy of business. From this foundation, two inter-dependent avenues of research evolved: (1) *corporate governance* and (2) *ethical decision-making*. Research has shown that it is the corporate ethos (established and promoted by the *tone at the top*) which encourages and fosters corporate deviant behaviour. In addition, this essay argues that in addressing business scandals and unethical practices, it is critical to examine the development of the individual person (especially through the virtues) from whom such actions emanate. One of the keys to social improvement is personal improvement. Corporate governance arrangements ought to also focus on governance at the individual level in order to develop one's courage to make ethical and practically-wise decisions through the development of the human virtues. Effective corporate governance and ethical decision-making are ultimately guided by the search for a metaphysical and coherent view of human nature (the anthropological question). The role of the virtues, in particular practical judgment, has been a common thread (Table 1) in the journal articles that are submitted for examination

Table 1
Role of Virtue

Journal Article	Context
Arjoon (2000)	Links the concept of virtue with core competencies
Arjoon (2005a)	Uses virtues as part of the juridical order in defining a communitarian model of business
Arjoon (2005b)	Links virtues and corporate governance through the concept of freedom for excellence
Arjoon (2006)	Identifies various virtues required to build an ethical organizational culture
Arjoon (2007)	Integrates virtue ethics with the Triple Font Theory of morality to improve ethical decision making
Arjoon (2008a)	Discusses the role of virtues in regulating the dynamic interplay between knowledge and behaviour in concrete situations
Arjoon (2008b)	Argues that it requires the development of a virtuous attitude to move up the slippery slope
Arjoon (2010a)	Presents the role of virtues in promoting ethical management practice

¹⁶ The *Third Way* refers to various political positions which attempts reconciliation between capitalist and socialist ideologies (Bobbio & Cameron, 1997). Advocates of the Third Way include Bill Clinton (United States), Tony Blair and Gordon Brown (United Kingdom), Kevin Rudd (Australia), Paul Martin (Canada), and Wim Kok (Netherlands). There are many forms of *third way* including democratic socialism and distributism.

Contemporary Relevance and Scholarly Contribution of Publications

[1] “Virtue Theory as a Dynamic Theory of Business,” *Journal of Business Ethics*, 28(2): 159-178 (2000).

This paper is one of the foundation papers of the research and has been cited one hundred and three (103) times (Appendix A). This paper develops a meta-theory of business based on virtue theory which links the concepts of virtues (identified as core competencies), the common good (identified as the mission of business), and the dynamic economy (identified as the business environment) into a theory of business. The main motivation for this paper is that traditional theories and models of business have not been adequate in explaining social reality. The proposed theory expounds that the business of business is ethical business and that the crises which business and society face today are crises of leadership and ethics. This scholarly article is in fact a seminal paper¹⁷ in the field of Business Ethics and integrates ethics into developing a meta-theory of business. The paper has been cited by scholars from the United States, Canada, Australia, New Zealand, Chile, Brazil, and Europe (Spain, UK, Germany, Italy, and Eastern Europe) reflecting issues in organisational and business theory, ethical reasoning and behaviour, business strategy, virtues and ethical character, codes of ethics, leadership, education, self-regulation, practical wisdom and ethical decision-making, virtues in public administration, social and sustainable economics, whistle-blowing, public relations and advertising, journalistic self-regulation, trust and integrity, ethical issues in the workplace, corporate governance, banking regulations, climate and socio-environmental assessment, crisis management, health-care ethics, information technology, ethics and regulations in banking, GIS and professional ethics, corporate transparency and ICT-driven ethics, corporate social responsibility, tourism and sustainable development, and organisational ethics. Applications and implications for leadership and corporate social responsibility are also discussed within the framework developed in the paper.

The paper argues that business, is above all, a natural means by which employees satisfy their needs and achieve their development as people. The ultimate goal of business then is to provide an environment that would allow and encourage people to achieve their goals

¹⁷ There are three major normative approaches to ethics: deontological, consequentialism and virtue ethics; theories of business ethics have been well-grounded in the first two schools of thought. What makes this particular paper seminal is that it is one of the first to establish a theory of business that is developed under a virtue ethics framework.

which at the same time promotes and realises business and societal goals (that is, the common good). One of the main foci of the paper is the link between the virtues and the common good which share the underlying assumption that people are social by nature and cannot be understood apart from the larger community in which they participate. The common good provides a conceptual organising category for mediating the excesses of individualism and the communitarian notion that attempts to retrieve the idea of community as a necessary foundation for social life. The common good serves as a way of construing the relationship of the individual to society so that the limits and possibilities of both individual and community well-being (in which the appropriate responsibilities and obligations that exist among individuals are clarified and articulated) are preserved. It shares with liberalism the impulse to affirm and extend the ideal of individual freedom to its appropriate limits; and with communitarian the conviction that only in the context of community can the fullest possibilities of the individual be realised.

It is through the virtues that people are able to develop and direct their efforts toward the realisation of the common good. Therefore by developing a person's natural potentialities through fostering an environment that would provide such opportunities (that is, by promoting the common good) and through the rational control of one's desires and passions (through the virtues) would help to make one a good member of society and therefore promote the common good of society. The issue of corporate social responsibility stemming from the virtue of justice, and leadership as it is related to the common good are also discussed in the context of the proposed theory.

This paper covers the benefits of an enhanced virtue theory: in providing a unified set of ethical guidelines to promote ethical behaviour, in seeking a dynamic and constructive force in inspiring good deeds (as opposed to reductionist vision understanding of modern business), in offering mercy as a way to recast corporate social responsibility which can be viewed as value-creation opportunities, in promoting organisational virtues to not only be strategically useful but also in linking internal and external agents' satisfaction, in identifying the goal of profit-maximising and ethics as a type of "separation thesis", in emphasising individual and collective responsibilities in which each person contributes to the whole in accord with his or her abilities and with the awareness of the legitimate needs of others (including the cultivation of character) as promoting the mission of business, as a way of making managers see the relevance of ethics, the need to subscribe to one set of ethical

principles, as valuable to servant-hood leadership with the focus on the common good and on the concern of the dynamic interactions among organisational members, in encouraging employees to think and behave in a manner that contributes beneficially to the organisation and society, by viewing business as a mediating institution that can create conditions to provide broad base participation (including the distribution of burdens and benefits) in contributing to the larger community, by developing a person's natural potentialities through fostering an environment that would promote the common good, by recognising that pursuing the good can be a liberating and inspirational force, in recognising that the virtue of responsibility or justice allows us to respect the rights of others which is the source of our obligation and a sense of duty for the welfare and happiness of others (for example, the ethical treatment of both men and women in the organisation), in arguing that one cannot properly talk about the theory of virtue without reference to the common good, in proposing that the ultimate goal of business is to provide an environment that would allow and encourage people to achieve their goals which at the same time promotes and realises business and societal goals, in demonstrating that the crises which business and society face today are the crises of leadership and ethics, in noting that what distinguishes a good leader is that he or she is relatively more developed in the virtues and that person has a clear vision of the common good and the means to promote it, in developing the notion that the pursuit of internal goods (which corresponds to a state of "being", whereas external goods corresponds to a state of "having"; it is only under the state of "being" that that one can fulfil one's true potentialities which cannot be accomplished or satisfied by a state of "having") is at the core of the normative case of "how business should be" is "how people should be", and in viewing that moral character and ethical sensitivities are essential in driving human excellence defined not only by its superiority in practice but also its role in serving larger social purposes. Some selected quotations (taken from the citations in Appendix A) that reflect these contributions include:

- A rise in consumer and media ethical consciousness (Arjoon, 2000; Brooks, 1989; Weber, 1990) has resulted in a need for senior management to ensure that organisational members understand one unified set of ethical guidelines and behave ethically. (Granitz & Ward, 2001)

- The ethical pursuit of excellence involves working virtuously...it would be a vision reductionist understanding it (codes of ethics) as a set of rules and prohibitions cold and abstract...the modern business orientation seeks a constructive force in ethics, dynamic, source inspiring good deeds. (Amaral Daineze, 2002)

- After noting and endorsing heterogeneity (what he calls the "separation thesis"), Surendra Arjoon (2000) goes on to argue the advantages of applying an enhanced version of *virtue theory* to business ethics. (Byrne, 2002)

- Virtue theory, grounded in Aristotelian ethics, is coming back into ethical discussion in both the private and public sectors...virtue theory offers a more appealing, practical, unified and comprehensive theory of ethics in business (and the public sector) than traditional approaches...it grounds morality in facts about human nature, concentrates on habits and long-term goals, extends beyond actions to comprise wants, goals, and dislikes, and in general, what sort of person one is and aims to be....offering mercy as a way to recast corporate social responsibility, Arjoon notes that mercy is often pitted against justice...he sees this as a “mistaken view” and describes mercy as “the fullness of justice,” for “Justice is rational and measured. Mercy is immeasurable. Justice can be commanded. Mercy must be freely given” (Arjoon, 2000). (Bruce, 2003)

- Traditional approaches to ethics focus on a set of prohibitive rules and principles which are concerned with telling people how they ought to behave...business executives and managers are usually not interested in the rhetoric’s of do’s and don’ts, rights and wrongs, goods and bads and ethics becomes abstractionist and fosters the separation of ethics and business either as being oxymoron or the idea that there is good business practice thus there is ethics...this phenomenon, known as the separation thesis, is the view within which business and ethics are seen as conceptually distinct and separate (Arjoon, 2000)... therefore, we contend that what is needed is an approach that is concerned with how people should behave, or what sort of person one must become in order to do the ‘right thing.’...such an approach that focuses on a purpose, on individual and collective responsibilities, and on the cultivation of character, is that of *virtue ethics* or *virtue theory* (Arjoon, 2000)... *virtue theory* holds the view that the foundation of morality lies in the development of good character traits as virtues: a person is said to be good if s/he has virtues....moral theorists commonly maintain that a virtue is a character trait that disposes a person to do what can be independently identified as morally required or to effect what is best. Forms of virtue ethics predominated in Western philosophy before the Renaissance, most in Aristotle, but also in Plato and Aquinas. (Cox & Meda, 2003)

- This wider interest in Virtue Ethics has led a number of business ethicists, including Arjoon (2000)..., to adopt it as a way of making managers see the relevance of ethics. (Dawson & Bartholomew, 2003)

- It is critical to understand sharing and variation of ethical beliefs and moral intent for several reasons. First, growth in consumer and media ethical consciousness (Arjoon, 2000; Nissbaum, 2002) has resulted in the need for senior management to ensure that organizational members subscribe to one set of ethics. (Granitz, 2003)

- Considered the oldest tradition in Western philosophy, virtue theory has its origin in Greek civilization, most notably in Aristotle’s *Nicomachean Ethics* (Arjoon, 2000). A contemporary resurgence has occurred with emphasis focused on the rights of others, or, rather, with an emphasis on other people, bringing focus back to the investigation into virtue theory p.2...Arjoon (2000) proffers that virtue theory is valuable to leadership due to the focus on the common good, rather than of profit maximizing, therefore earning a place in leadership...virtue theory allows leadership to be concerned with the dynamic interactions among organizational members p. 2... a virtue is displayed, according to Arjoon (2000) when one is doing something deliberately with a desire to perform as human beings ought, that is, in the proper way...such is the case with servant-hood. (Patterson, 2003)

- Strategic map tries to reflect the relationship that the literature indicates as being representative of the process of value creation in social responsibility, described in the work of...Arjoon (2000). (Miyashita & Soares, 2004)

- It has long been argued, from logic and principle, that organizations should consider supplementing an emphasis on ethics and corporate social responsibility with a concern for ethos or the development of organizational virtuousness (Arjoon, 2000) p. 169...The implicit assumption is often made that if organizations are prevented from producing bad outcomes, good ones will inevitably result...however, this is not necessarily the case; abiding by rules, following through on duty, and avoiding harm is different than the phenomena on the right side of the Figure 1 continuum (Arjoon, 2000, p. 173). (Caza et al., 2004)

- There are numerous works on virtue ethics in business ethics. Some of them are: Arjoon (2000). (Spurgin, 2004)

- Organizational virtues should not only be strategically useful, but should also be linked to internal and external member satisfaction. While traditional virtue theory has focused only on moral virtues, non-obligatory virtues are becoming very important in modern business ethics...for example, 'pride' in the company one works with, or 'mercy' when dealing with weakness (...Arjoon, 2000...)...in these aspects, ethics is not right or wrong, or good or bad, but a colorful and multifaceted engagement with other people. (Chun, 2005)

- Within the literature on ethical leadership..., Arjoon (2000) emphasizes individual and collective responsibilities and the development of character...Arjoon rejects deontology on the basis that it focuses on the minimalist or negative aspect of ethics, rights and duties and suggests that virtue ethics is more basic than the other moral philosophies: 'the virtue of responsibility or justice...allows us to recognize and respect the rights of others, which is the source of our obligation and a sense of duty for the welfare and happiness of others' (Arjoon 2000, p. 162). (Knights & O'Leary, 2005)

- Servant leadership theory provides a marked contrast with that of transformational leadership theory...while transformational leaders strive to align their personal interests (that is, organisational interests and the interests of the followers) with the interests of the group, organisation, or society, the primary focus of the leaders in servant leadership theory is on serving their followers individually...once again, this very idea of service is at the heart of servant leadership theory and it occurs as the leader serves others, mainly his or her followers (Arjoon, 2000). (Koshal, 2005)

- Moral agency, in our perspective, involves the expression of character and virtues into action aimed at the common good which is achieved when each person contributes to the whole in accord with his or her abilities and with the awareness of the legitimate needs of others (Arjoon, 2000). (Schneider et al., 2005)

- Specific guidance could cover desirable individual traits that encourage employees to think and behave in a manner that contributes beneficially to the organization and society Arjoon (2000. P. 166), "businesses must create conditions that provide broad base participation, distribute burdens and benefits, and contribute to the larger community... therefore, by developing a person's natural potentialities through fostering an environment that would provide such opportunities (that is, promoting the common good), and through the rational control of one's desires (that is, the virtues) will help to make one a good member of society and therefore promote the good of society...codes might therefore be framed to promote business ethics by focusing on desirable behaviors that are representative of individual virtues...the principle of virtue originally espoused by Aristotle "holds the view that the foundation of morality lied in the development of good character traits as virtues: a person is said to be good if he or she has virtues" (Arjoon, 2000, p. 161)...a number of scholars claim that virtue ethics must be better integrated into investigations of business ethics to obtain a more complete picture of individual ethicality (Arjoon, 2000)...many of the recent corporate scandals highlight the need for further

examination of corporate corruption (Arjoon, 2000,...) as well as the personal integrity and incorruptibility that can prevent such unethical conduct...based on the principles espoused in virtue theory, an organization must employ and empower leaders who represent the desired values of the community and effectively institutionalize corporate ethical principles by being ethical role models (Arjoon, 2000)...the impact of ethics training on an individual virtue-orientation seems to be a promising area of inquiry, as does the manner in which this orientation affects individual ethical reasoning in questionable work situations...virtue theory provides the sensitivity and appreciation of circumstances and opportunities which are not emphasized in traditional approaches to business ethics (Arjoon, 2000, p. 173)...new virtue ethics research could provide an alternative explanation of organisational ethics and further accentuate the importance of leadership grounded in virtuous principles. (Valentine & Johnson, 2005)

- Arjoon (2000) summarized recent evidence on the association between ‘corporate social performance’ and ‘corporate financial performance’, concluding that there is a balance of evidence that there is a positive relationship between the two...the foundation of morality is said to lie in the development of good character traits as virtues (Arjoon, 2000)...virtue theory has been criticized on the grounds that it seems to provide no clear cut rules and principles for use in ethical decision making...this is because attention is focused on the cultivation of the virtues, from which sound ethical behaviour is expected to flow. (Brennan & Baines, 2006)

- The common good cannot be viewed as the mere sum of individual goods which is rooted in traditional thinking...once the atomistic individual is taken as an isolatable unit, then the individual and the community become pitted against each other in an irreconcilable tension. (Pezoa & Calvo, 2006)

- An organizational ethos of virtuousness refers to the pursuit of the highest aspirations in the human condition (MacIntyre, 1984). It is argued to be a useful orientation providing proactive guidance in times of difficulty (Caza, et al., 2004; Arjoon, 2000) ...An ethos of virtuousness is suggested to not only help organizations avoid wrongdoing, but to enhance the likelihood that they will pursue higher levels of individual and societal benefit as well (Arjoon, 2000; Bolino, Turnley, & Bloodgood, 2002). An ethos of virtuousness differs from ethics in that choices are made, not only from the standpoint of living within the constraints of ethical rules, but also from the perspective of building personal and communal excellence (Arjoon, 2000; Dobson, 2004). The benefit of research on ethos as a complement to ethics derives from three basic premises. First, ethical codes cannot predict every possible dilemma managers will face in the turbulent external environment (Arjoon, 2000; Caza et al., 2004). “Virtuousness” refers to the ethos or the ideal state of excellence of human or organizational character, while “virtues” are the specific manifestations of a particular type of character excellence. In an ethos of virtuousness, “the foundation of morality lies in the development of good character traits as virtues,” for which both individuals and organizations have responsibility (Arjoon, 2000; Nesteruk, 1996). What is commonly construed as “the good” is defined within the boundaries of organizing communities, and “the common good is achieved when each person contributes to the whole in accord with his or her abilities and with the awareness of the legitimate needs of others.” (Arjoon, 2000, p. 165). This study demonstrates the importance of discussing not only ethics but also ethos in organizations. Indeed, an ethos of virtuousness can be a “liberating, inspirational force” (Arjoon, 2000, p. 162) in the dynamics of organizational life. Ethos acts as a beacon during uncertain times or situations that call for thinking beyond the “do no harm” assumption embedded in most ethical codes of conduct. (Bright et al. 2006).

- The literature on ethical leadership tends to favour virtue ethics over deontology and consequentialism (see e.g. Arjoon, 2000; Molyneux, 2003; Morrison, 2001; Whetstone, 2001). But for the most part, these works involve an individualistic approach to morality and do not attempt to transcend the dualism between self and other. There is a growing body of research which positions leadership as having a central role and responsibility in constituting organizational or business ethics. For example, Arjoon (2000) argues that the crises that business and society face today are the crises of leadership and ethics. Arjoon (2000) stresses individual and collective responsibilities and character development. Arjoon dismisses deontology because it focuses on the minimalist or negative aspect of ethics, rights and duties and suggests that virtue ethics is more fundamental than the other moral philosophies: “the virtue of responsibility or justice ... allows us to recognize and respect the rights of others, which is the source of our obligation and a sense of duty for the welfare and happiness of others” (Arjoon, 2000, p. 162). (Knights & O’Leary, 2006)

- Managers must be willing to support the principles outlined in ethical programs by reprimanding gender inequity when such conduct occurs, encouraging greater diversity awareness by rewarding tolerance and other desirable business virtues, and personally promoting the ethical treatment of both men and women in the organization (Arjoon, 2000). (Valentine & Page, 2006)

- Arjoon (2000), for example, has developed a theory of applied virtue ethics for use as a dynamic theory of business which links the ideas of virtues, the common good, and the economy into a unifying and comprehensive theory of business. (Danner, 2006)

- Arjoon (2000) sums up the kinds of questions typically asked by principle-based theories: What are one’s moral obligations? What ought we to do? What is our duty? What is the ultimate principle of right or wrong? (Borden, 2007)

- Arjoon (2000) argued that the traditional model of business as existing solely to make profits may have short-term benefits, but disastrous long-term consequences...contended that Virtue Theory suggests that organizations that are ethically-driven can realize a greater profit potential than those that are profit-driven...in the end, retaliation against whistleblowers whose claims cannot be convincingly refuted is unlikely to be in the long-term best interests of the organisation from the perspectives of employee receptivity, organizational effectiveness, or corporate reputation. (Decker & Calo, 2007)

- Contributors to Ethical Theory: Virtue theory, focused on the common good, inductive method and conceptual work p 15 (translated from Spanish to English with google translator). (Herrera, 2007)

- Currently, many organizational experts appear to be revisiting issues and concepts central to the Aristotelian system and, in fact, several themes have been recovered from the Aristotelian tradition in management studies...among them is the concept of practical wisdom...this is important because practical wisdom could emerge as an alternative to the kind of reason advocated by modernist epistemologies (Arjoon, 2000...)...most Aristotelian business ethicists have traditionally been inclined to favour the rational facet of practical wisdom devaluating its emotional dimension (Arjoon, 2000). (Roca, 2007)

- In the last few decades, two prominent themes in ethics have been the revived interest in virtues and the controversial notion of collective (or corporate) responsibility. Remarkably rarely, however, are these two themes combined. A notable exception is Schudt (2000). A brief and rather sketchy attempt is Arjoon (2000). (Sandin, 2007)

- Consistency of behavior: both virtues and vices gradually may be learned and developed through habits of behavior or repetitive practice (Arjoon, 2000, p. 162)...care and concern for the common good: Arjoon (2000) wrote that “one cannot properly talk about the theory of virtue without reference to the common good” (p. 166). Elements of contemporary virtue ethic: Virtue theory “is the oldest normative tradition in Western Philosophy” having its roots in Aristotle’s Nicomachean Ethics, “the earliest and most influential systematic account of virtue theory” (Arjoon, 2000, p. 161). (Baker, 2008)

- Some try to jump into the gap and claim that by developing a strong sense of character, profits may be increased, thereby justifying virtue (Arjoon, 2000). (Bertland, 2008)

- Reconceptualizing journalism as a social practice: a sense of ongoing transformation of the goals of practice must exist. (Breit, 2008)

- What is commonly construed as ‘the good’ is defined within the boundaries of organizing communities, and ‘the common good is achieved when each person contributes to the whole in accord with his or her abilities and with the awareness of the legitimate needs of others’ (Arjoon, 2000, p. 165). (Fernando, 2008)

- Surendra Arjoon puts forward *Virtue Theory as a Dynamic Theory of Business*. This paper is relevant to my discussion in that it not only applies virtue ethics directly to business but proposes, “Virtue theory offers a more appealing, practical, unified and comprehensive theory of ethics in business than traditional approaches.” Critically, Arjoon considers individuals’ ethical motives rather than the corporation as a moral entity, however, the basis of virtue ethics applied in business will provide some guidance to assessing the rating agencies criteria. Arjoon considers that Aristotle’s view of moderation, “This concept of the intermediate or moderation” to be “at the heart of virtue theory.” Arjoon lists virtues as, “prudence or practical wisdom, courage or fortitude, self-mastery or temperance, and justice or fairness.” These are the cardinal virtues. Relevant to business practice, he distinguishes between moral virtues that are “concerned with the will and can be acquired through regular practice” and “intellectual virtues [that] are acquired through learning.” A further distinction, again highly relevant to business, is between internal goals that are “unique, intangible, unlimited in supply, and have intrinsic value” and external goals such as profits, wealth, power and success. The argument developed here is essentially that individuals’ internal goals, relating to self-fulfilment and flourishing, will be the driving force for achievement of external goals. This perhaps provides the link between individuals’ morality and corporate outcomes reflecting that morality. Arjoon uses the term “common good” throughout his paper but this is a descriptive term used in context rather than the basis of ethics that I have used in categorizing theories for considering criteria. The common good is a set of outcomes resulting from virtuous actions in business and is demonstrated by examples such as adoption by companies of work/life strategies, elder care, fitness centres and flexible working hours. Arjoon makes some strong observations on the purpose and outcome for business. One is that, “profits are no more the purpose of a business than eating is the purpose of life.” This is fundamental to his argument based on the distinction between internal and external goals. Achieving internal goals is the real purpose of individuals so that in a business context the outcome of profit and other external goals is a result rather than the purpose. The analogy with eating is apt. Further, “Business is essentially a social organization where people are organized to achieve a common purpose - promoting the common good.” Finally, “The ultimate goal of business then is to provide an environment that would allow and would encourage people to achieve their goals which at the same time promotes and realizes business and societal goals.” This is a very different conclusion from Friedman’s - that the business exists solely to make a profit within the legal constraints imposes

by the community. In *The Cultural Paradigm of Virtue*, Carter Crockett picks up Thomas Kuhn's model of paradigms suggesting, in a similar sense to Arjoon, that virtue ethics provides a comprehensive model, or paradigm, for business Arjoon (2000). Crockett claims that, "Organizational excellence is meant to be valued in its own right as intrinsically worthwhile" so that internal goals are the real purpose while external goals result from collaborative activities. Crockett talks about "character and practical wisdom, based on facts as well as values" which are similar to Arjoon's moral and intellectual virtues. (Timperley, 2008)

- Furthermore, 'one of the main criticisms of virtue theory is that there appears to be a lack of clear-cut rules and principles for use in ethical decision-making' (Arjoon, 2000, p. 163). (Roca, 2008)

- So far this century a number of works has been published on the concept of the common good (Arjoon, 2000)...instrumental goods as opposed to real goods...when we talk about the common good in specialized communities, we need to talk about the communities they create. (Argandoña, 2009)

- There is a growing body of research which positions leadership as having a central role and responsibility in constituting organizational or business ethics. For example, Arjoon (2000) argues that the crises that business and society face today are the crises of leadership and ethics. (Knights, 2009)

- Nevertheless, many authors have considered ambiguity to be a negative element present in Aristotle's ethics. Some philosophers and organizational experts are skeptical about whether or not practical reason helps us to resolve specific problems: 'It is one thing to stress character and context and another to give puzzled individuals some reasonably specific guidance in handling real dilemmas in the workplace' (Shaw, 1996). Furthermore, 'one of the main criticisms of virtue theory is that there appears to be a lack of clear-cut rules and principles for use in ethical decision-making' (Arjoon, 2000). In contrast, I believe that this 'problem' exactly represents the nature of morality, based on a moral sensitivity and an exercise of judgment that is not susceptible to being translated into a 'specific guidance format'. (Batllori, 2008)

- There is a scholarship that explores the social impact on corporate behaviour including corporate responsibility, corporate social performance, virtue theory (Arjoon 2000) and other theories of business ethics. (Quarter et al. 2009)

- Organizations that focus on governance models that encouraged creativity – an extra-role "core competency" enhanced by high trust in organizational leadership – increase their likelihood of a sustainable competitive advantage and creating new wealth. (Caldwell & Hansen, 2010)

- Individuals' moral character is at the core of the moral theory of virtue...grounds morality in facts about human nature, concentrates on habits and long-term goals, extends beyond actions to comprise wants, goals, likes and dislikes, and in general what sort of person one is and aims to be...argues that what distinguishes a good leader is that he or she is relatively more developed in the virtues and that person has a clear vision of the common good and the means to promote it...the pursuit of internal goods corresponds to a state of "being", whereas external goods corresponds to a state of "having"...it is only under the state of "being" that that we can fulfil our true potentialities that cannot be accomplished or satisfied by a state of "having"...at the core of the normative case of "how business should be" is "how people should be"...moral character ethical sensitivities are essential in driving human excellence defined not only by its superiority in practice, but also its role in serving larger social purposes. (Wang, 2011)

- Ethical leadership and the "Tone of the Top" are the most powerful factors that shape the organizational culture and the ethical climate prevailing in a corporation. Corporate directors are key

representatives of the ethical standards in a firm (James, 2000; McClaren, 2000; Minkes et al. 1999; Sims, 1992; Trevino, 1986). They are symbolic figures that embody corporate moral values and are seen as models of ethical conduct. Thus, the consistency observed in their behavior with the principles espoused by the corporation will induce followers to act in the same way (Dickson et al., 2001; Sims, 1992), indirectly defining behavioral standards (Trevino and Nelson, 1999), and reinforcing the institutionalization of corporate ethical principles (Arjoon, 2000). (Majlut & Navarette, 2011)

- The ultimate goal of business is to provide an environment that would allow and encourage people to achieve their goals which at the same time promotes and realizes business and societal goals (Arjoon, 2000, p. 168). (O'Neil, 2011)

- If firms were to pursue an external goal of maximizing profits, they would be constraining themselves. However if internal goals are pursued, then the level of profits that can be realized becomes unconstrained since internal goods are not limited in supply (Arjoon, 2000, p. 163). (O'Neil, 2011)

- Unselfish behaviour, oriented to the common good, lies hence in the self-interest of business (Arjoon, 2000). (Dierksmeier, 2011)

- Virtue theory also links the concept of virtues to the common good (Arjoon, 2000, p. 159). (Crossman & Noma, 2012)

- The crises facing organizations and society are noted as the crises of leadership and ethics (Arjoon, 2000). (Eleswed & Dennis, 2012)

[2] “A Communitarian Model of Business: A Natural Law Perspective,” *Journal of Markets and Morality*, 8(2): 455-479 (2005a).

This publication is one of the foundation papers that forms the basis of the integrating essay and incorporates natural law and virtue ethics in developing a philosophical understanding of the firm and business environment in which it operates. The paper compares and contrasts a communitarian view of business based on natural law principles of business models under liberalist and socialist doctrines. It argues that the communitarian view represents the proper balance and order between the claims of liberal and socialist views, and provides assistance to private initiative¹⁸. The paper demonstrates the need for a humanism that recaptures the metaphysical certitude of the human person and thereby provides a philosophy of authentic human development. By its very nature, the communitarian view defines the business organisation as one that incorporates its social purpose. The communitarian business model is not opposed to a capitalism that is characterised by a system

¹⁸ Villegas (2008) notes that from the late 1960s, several East Asians economies (South Korea, Singapore, Taiwan and Hong Kong) did not embrace the extreme or rugged capitalism but blended social policies with market forces within reasonable limits; in contrast, many Latin American countries followed a socialist, interventionist model that greatly suppressed economic freedom with excessive regulations, as well as protectionists and ultra-nationalistic policies. In just one generation, these ‘miracle economies’ of the South East Asian nations were the most successful in attaining many of the goals contained in the United Nations’ Millennium Development Goals, especially those of eradicating extreme poverty and hunger and achieving universal primary education.

of free enterprise, production, and competition; it is opposed to that of little or no regulation or control. The communitarian model acknowledges and presumes the primacy of people over profits (the former is the 'ends' and the latter, the 'means').

Werhane and Freeman (1998) give an overview of communitarianism which can be traced back to the insights of Hegel and Aristotle. It argues that the collective can have rights that are independent of (and even opposed to) the rights of individuals who develop and flourish only within the context of a community. The Communitarian Network (<http://www.gwu.edu>) notes that the movement seems to have been primarily motivated by the deficiencies and negative consequences of liberalist policies (for example, the negative effects of an overly individualistic concept of self, alienation from the political process, unbridled greed, loneliness, urban crime, high divorce rates, etc.). Two waves of the communitarian movement can be discerned: (1) the first was developed as a critical reaction to Rawls' (1971) book on a theory of justice which exerted considerable influence on social and political thought (notable proponents of this first wave include Alasdair MacIntyre, Michael Sandel, and Charles Taylor), and (2) the second wave, initiated in the 1990s, focused on socio-political issues with an emphasis on social responsibility (notable proponents include Amitai Etzioni and William Galston).

This paper addresses substantial gaps in the literature. First, there has been little work done in developing a theoretical and normative foundation for business that integrates its social purpose and responsibility. Secondly, though the communitarian project stresses that communal values are based on *external and overriding criteria* of shared human experience, it fails to take its premise to its logical conclusion in that it needs to declare the criteria that its qualified defence of communities requires. The paper therefore advances the communitarian debate in grounding it in an Aristotelian-Thomistic natural law framework that specifies the 'external and overriding criteria'.

The theoretical framework for this paper was posited by de Torre (1984) who criticises both liberalism and socialism as stemming from a philosophy that has lost touch with reality and argues for the requirement for some balance between these philosophical paradigms to address their respective ethical deficits. The root error of both liberalism and socialism is that their driving force is fundamentally materialistic as both philosophical systems share the underlying assumption that reduce the human person to the *economic person* and therefore fail

to recognise the person's full nature and dignity (Messner, 1965). The philosophical framework is informed by the natural law understanding of *rationality* (based on 'collective rationality' as opposed to 'individual rationality' and 'collectivism' under liberalism and socialism respectively), *primary purpose* (based on 'human flourishing or happiness' as opposed to 'profits' and 'state welfare' under liberalism and socialism respectively), *basic unit* (based on 'employees and their families' as opposed to the 'individual' and the 'State' under liberalism and socialism respectively), *market characteristics* (based on 'co-opetition' as opposed to 'competition' and 'cooperation' under liberalism and socialism respectively), *regulatory mechanisms* (based on the principles of 'solidarity and subsidiarity' as opposed to 'unregulated free market' and 'State regulation' under liberalism and socialism respectively), *juridical order* (based on an order of 'rights and duties based on justice' as opposed to 'rights' and 'duties' under liberalism and socialism respectively), and *supreme value* (based on the 'common good' as opposed to 'freedom' and 'equality' under liberalism and socialism respectively). The paper concludes that the principal aim of business does not merely consists of mere profits, but it ought to be directed to the service of people in their totality, taking into account their material needs and the requirements of their intellectual, moral, spiritual and religious lives. Providing an environment for employees to achieve their own goals as well as that of the firms results in the ultimate sustainable competitive advantage because such a practice is unique and unlimited in scope and so difficult to imitate or copy.

This paper was nominated as one of the top three (3) papers for the Templeton Enterprise Award in the field of Human Economics and Culture, Intercollegiate Studies Institute's Culture of Enterprise Initiative (www.cultureofenterprise.org). This paper, cited six (6) times, was also featured in the *New York Times* (Business Section) on May 14th 2010, in an article written by Professor Uwe E. Reinhardt (Professor of Economics at Princeton University). The article centres on the notion of the purpose of business on which there are at least two distinct schools of thought: (1) the *neoclassical* or *liberal* theory of capitalism (which reduces human labour to an input that is sometimes useful and dispensable at other times with the sole purpose of a corporation is to generate profits for the benefit of its owners¹⁹) and (2) the *communitarian* or *stakeholder* theory of capitalism. It is in the context of

¹⁹ The author notes that this vision has its roots in Adam Smith's celebrated passage: *It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regards from their own interest. We address ourselves not to their humanity, but to their self-love, and never talk to them of our own necessities but of their advantages* (An Inquiry into the Nature and Causes of the Wealth of Nations (1776), Book 1, Chapter 2, Para. 2).

the latter that the Communitarian Business Model developed in Arjoon (2005a) was cited. Reinhardt (2010) also argues that liberal capitalism bears much of the blame for the financial, economic and moral crises. Condit (2007) also cites Arjoon (2005a) in supporting a socially-conscious business model that avoids the extremes of liberal, unconstrained *laissez-faire* economics and the socialists, centrally-controlled models of corporate social responsibility with respect to business responsibility for employee health care.

[3] “Corporate Governance: An Ethical Perspective,” *Journal of Business Ethics*, 61(4): 343-352 (2005b).

This conceptual paper, cited sixty (60) times (Appendix A), discusses corporate governance issues from a compliance viewpoint, makes the distinction between legal and ethical compliance mechanisms, and shows that the former has clearly proven to be inadequate as it lacks the moral firepower to restore confidence and the ability to build trust. At the core of the debate on corporate governance is the issue of whether managers of corporations should serve the interests of shareholders or of stakeholders. The first aspect is related to a shareholder wealth-maximisation model of corporate governance, and the second reflects an Aristotelian-Thomistic natural law-virtue ethics framework. This paper makes an explicit link between corporate governance and ethics through a discussion of the concepts of *freedom of indifference* (which is the source of the ethics of obligation or law of duty that is seen as an external limit imposed on the agent) and an Aristotelian-Thomistic view of *freedom for excellence* (which inspires an ethics of virtue and governs the dynamism and development of one’s faculties for action toward one’s happiness). These two (2) concepts of freedom, developed by Pinckaers (2001), provide the theoretical basis for explaining the different ethical behaviour that arises out of legal compliance (*law of duty*) and ethical compliance (*rule of joy*). The distinction between these two concepts provides a theoretical basis for explaining why legal compliance mechanisms are insufficient in dealing with fraudulent practices and may not be addressing the fundamental issues that inspire ethical behaviour. The tendency to over-emphasise legal compliance mechanisms may result in an attempt to substitute accountability (that is, being open to judgment from one’s peers) for responsibility (that is, acting with deliberation and accepting consequences for decisions taken). The paper concludes that the current environment characterised by failures of corporate moral responsibility is not only a consequence of failures of legal compliance, but perhaps more fundamentally the result of failures to do the right (ethical) thing.

With respect to the paper's impact on the international academic community the following are summarised from citations (taken from Appendix A) that emphasise various ethical aspects of corporate governance: virtue ethics provides positive principles for the practice of corporate governance and the creation of an ethical organisational culture in 'grounding morality in facts about human nature', the overly legalistic approach to compliance of Sarbanes-Oxley, the focus on regulations can lead to a devaluation of the moral and ethical dimension of sustainability and therefore the idea that the correction of environmental and social externalities cannot be seen only as a technical or institutional issue but should necessarily rely on a solid ethical (and cultural) basis and on a widespread involvement of individual responsibility toward common concerns (in other words: "the only way in which companies [but even agents and organizations in general] can be ethical is for people to be ethical"), trust in a responsible and value-oriented corporate governance builds credibility for the corporate image and to the various stakeholders (this will increase the loyalty of customers and employees, disclosure, reputation, virtues and principles, accountability and responsibility, stakeholders' concern, the role of legal and ethical compliance, and the importance of an ethical culture), that an approach to corporate governance in terms of stakeholders (may be a more logical, rational, just and democratic system that delivers better business results) establishes an effective response to different stakeholders which can be achieved by adopting a set of principles and best practices, that legislating ethical behaviour is unrealistic (ethical obligations cannot be achieved through legislation) and consequently Sarbanes-Oxley may not be enough to lead managers and senior executives to act ethically (since legislating behaviour is not likely to be sufficient in rectifying problems of governance), good governance principles make up an informal normative framework of how it should be, in order to be good' (it's assumed that one follows the principles, but generally principles are not enforceable legally, yet they are subject to social control), that ethics today is an essential component for the operation and business success due to the failure of traditional profit-oriented economic objective, effective corporate governance can positively contribute to organisational outcomes as well as enhancing shareholder value and investors' confidence (principles can mitigate corrupt behaviours and encourage ethical practices in addressing issues relating to ethical conduct/behaviour, a weak or inexistent enforcement by regulators/trade groups by reducing instances of favouritism, corruption, and conflicts of interest; this cannot only have an impact on organisational performance but also on ethical values at the personal and societal level), the appeal to ethics for effective corporate governance rather than relying on adversarial litigation, connecting

legal considerations with business concerns illustrates some of the central tension in corporate governance and that the threat of an increased focus on the law in governance studies could trigger "a subtle substitution of accountability for responsibility" which may also result in an unrealistic attempt to legislate morality, and that the main issue in corporate governance is the inadequacy of the present structure which neglects to consider the human side of governance. The following are some selected quotations (taken from the list of citations from Appendix A):

- Every company should ensure that their business strategy and systems are aligned behind a set of virtues that all can support. All job descriptions and appraisal systems should incorporate a virtues dimension which calls for a quality of behaviour in an organisation above and beyond the skills of homo economicus. Surendra Arjoon has consistently argued that virtue ethics ('be virtuous and avoid vices') provides positive principles for the practice of corporate governance and the creation of an ethical organizational culture in 'grounding morality in facts about human nature. (Thompson, 2005)

- The Sarbanes-Oxley-like disclosure reforms also suffer from an overly legalistic approach to ethical governance. Sarbanes-Oxley, and nonprofit reforms modeled upon it, by and large take a compliance approach to the production of ethical board governance. As every nontrivial activity assumes a philosophical perspective, corporate governance reforms also presuppose a particular normative view, such as a stockholder or stakeholder view. Sarbanes-Oxley is no exception. I contend that Congress employed a stockholder conception of business ethics when it passed the Act. Congress made this clear in the Preamble, stating its goal as protecting investors by improving the accuracy and reliability of corporate disclosures. Legal scholars also agree that the Act is focused almost exclusively upon the needs of stockholders. (Mulligan, 2006)

- Unidirectional governmental measures (taxes, prohibitions, social legislation, various kind of governmental regulations, direct production), designed to bring about the closest possible identity between (marginal) social and private costs, have been traditionally the more exploited tools. A form of intervention which has led to important improvements and results both in the environmental and social field (Vogel, 2005), though not final and exhaustive (Jenkins, 1998; European Commission 2000; Arjoon, 2005). Finally, focusing only on regulatory controls and proper pricing can lead to an excessive delegation of responsibilities to experts, civil servants and public bodies (Jenkins, 1998) and, consequently, to a devaluation of the moral and ethical dimension of sustainability. We agree therefore with the idea that the correction of environmental and social externalities cannot be seen only as a technical or institutional issue, but should necessarily rely on a solid ethical (and cultural) basis and on a widespread involvement of individual responsibility toward common concerns. In other words: "the only way in which companies [but even agents and organizations in general] can be ethical is for people to be ethical" (Arjoon, 2005: 345). (Secchi & Zatti, 2006)

- According to an attempted definition by OECD's corporate governance is the System with which companies are managed and controlled. Key words brought out are Anti-corruption/Fairness, transparency and compensation. Opportunities in this area concern trust in a responsible and value-oriented corporate governance, credibility and build up to the various stakeholders (Arjoon, 2005) (Translated from German). Corporate Image: The improvement of corporate image is not only intended to counteract negative publicity about, but also to distinguish themselves by their own positive effect of foreign competitors (Amalric, Frank / Hauser, Jason). It is

done by building a reputation for good behavior this will increase the loyalty of customers and employees (Arjoon). (Translated from German) (Zimniok, 2006)

- We can argue that an approach to corporate governance in terms of stakeholders may be a more logical, rational, just and democratic system that delivers better business results so that the introduction of a series of principles and best practices in corporate governance could help to provide an effective response to different stakeholder (Arjoon, 2005). Arjoon (2005) establishes that given an effective response to different stakeholders implies that corporate governance can be achieved by adopting a set of principles and best practices. A great deal depends on the fairness, honesty, integrity in which companies conduct their affairs. (de La Cruz & Cabrera-Suarez, 2007)

- Arjoon (2005) concludes that legislating ethical behavior is unrealistic and cites Donaldson (2003), who indicates that ethical obligations cannot be achieved through legislation, consequently, Sarbanes-Oxley may not be enough to lead managers and senior executives to act ethically since legislating behaviour is not likely to be sufficient in rectifying problems of governance. (Howton et al., 2007)

- Beside the five core principles, literature points also some supporting principles. We can see them as being derived from the core principles giving the content of government governance a greater specification and mostly refer to normative criteria which are typical for public sector settings. Good governance principles make up an informal normative framework of 'how it should be, in order to be good'. It's assumed that one follows the principles, but generally principles are not enforceable legally. Yet, they are subject to social control (Arjoon, 2006). (Jurgen & Verhoest, 2007)

- Ethics today is an essential component for the operation and business success (Somers, 2001; Wotruba, Chonko, and Loe, 2001) due to the failure of traditional model-oriented economic objective (Arjoon, 2005)". (translated from Spanish) (Rodriguez-Dominguez et al., 2008)

- Over the last two decades, corporate governance (CG) has become the subject of sustained research interest, as it is believed it positively contributes to organizational outcomes as well as enhancing shareholder value and investors' confidence. It is also argued that CG can mitigate corrupt behaviors and encourage ethical practices (Rossouw, 2005; Arjoon, 2005). Arjoon (2005, p. 344) assert that accountability and transparency are key points of interest in CG and these also take prominence in addressing issues relating to ethical conduct/behavior, particularly in the African context (also Rossouw, 2005, p. 101). In addition to these notions of accountability and transparency, it is argued that the latter principles convey additional meanings in contexts characterized by concentrated ownership structures (family-dominated or otherwise), a weak or inexistent enforcement (by regulators/trade groups), opacity in the management of public/private sector organizations and cases of fraud/corruption. These characteristics are certainly not limited to developing/emerging countries but in such situations, the CG "construct" is associated to the development and enhancement of ethical behaviors/norms beyond the organization's realm, towards reducing instances of favoritism, corruption and conflicts of interest (Rossouw, 2005; Arjoon, 2005). There is an ethical dimension to CG (Arjoon, 2005), which takes a particular prominence in certain countries. Arguably, this cannot only have an impact on organizational performance but also on ethical values at the personal and societal level. Overall, this is supportive of the need to explore CG amongst non-board managers and this paper presents the implications based on a case study. (Soobaroyen & Sheik-Ellahi, 2008)

- Legislating ethical behavior is unrealistic (Arjoon, 2005). Despite efforts to legislate better practice by boards and managers via laws such as Sarbanes-Oxley, Arjoon (2005) and Donaldson (2004) conclude that legislating ethical behavior by managers is not likely to be sufficient in rectifying problems in the ethics and governance of modern corporation. (Howton et al., 2008)

- Arjoon (2005) confirms that corporate governance includes both legal and ethical dimensions. From an ethical dimension, at a fundamental level, the key issues of corporate governance involve questions concerning relationships and building trust (Arjoon, 2005). (Zhang & Rezaee, 2008)

- Ethics is currently an essential component in business success (Arjoon, 2005), especially if we take the problems of trust experienced after recent financial scandals into consideration. (Rodriguez-Dominguez et al., 2009)

- Due to the constant news of corporate misconduct, perception on the corporate governance structure has somewhat been depressing. The compliance based approach of governance structure has been claimed insufficient in coping with the challenges of modern business (Arjoon, 2005). Consequently, companies find themselves pressured to meet stakeholders demand for accountability and transparency. Typified by the agency theory where the wealth of stakeholders is made priority, corporations seem to focus on compliance rather than the substance of the governance practices. (Othman & Rahman, 2009)

- Compliance will result in some likely safe heavens of accountability but will not be able to create passion and moral excellence. Attaining a high corporate reputation requires that financial performances are aligned with high moral standards and with societal expectations of relevant stakeholders that result in increased organizational value (Porter *et al* 2006; Arjoon 2005; De George 1993; Jackson *et al* 2004; Freeman 1984; Emerson 2003; Zadek 2001; George *et al* 2007). (Verhezen & Morse, 2009)

- It is essential that members of institutions not only be educated about the content of various policies, but that administrators help foster an ethical culture within which policies are acknowledged, debated, understood and ultimately respected: compliance with policies can be promoted by a culture of ethics (Arjoon, 2005). (Smith & William-Jones, 2009)

- Disclosure has been a major issue in the legislation regarding CG. Sarbanes-Oxley Act (SOX) in the USA clearly state that disclosure is a major goal for the Act (Arjoon, 2005). (Lazarides et al. 2009)

- The persistent concern in societies over the status of health of corporations and of society underpins the relevance of corporate governance both as an ethical principle and as practice to date (Arjoon, 2005, p. 343). (Chienjine, 2010)

- Naming and shaming should be done with potential consumers in mind. When it comes to an enforcement mechanism, a binding adjudicative mechanism by which corporations can be asked to pay deterring amount of damages is widely assumed as the effective one. Some question the effectiveness of relying on adversarial litigation and would rather appeal for ethics and morality (Arjoon 2005). (Weldehaimanot, 2010)

- CFOs should also be more likely to be fired following securities class actions. This is for two reasons. (1) The two parties mainly responsible for financial disclosure are the CEO and the CFO (Arjoon, 2005). (Humphrey-Jenner, 2010)

- Arjoon (2005) suggests that by returning to the pursuits of developing ethical virtues within an organization, and within an organization members, companies will be able to pursue any goal, including incidentally maximizing profits in an unconstrained manner: so, if firms wish to maximize profits they should be ethically driven

(that is the pursuit of internal goals) as oppose to profit driven (that is the pursuit of external goals) since the former drives the latter. (Krook, 2010)

- Only after the incident of significant corporate failures and financial scandals due to lack of ethical consideration, there were suggestions to integrate ethics into corporate governance framework such as Drennan, (2004), Cladwell and Karri, (2005), Arjoon, (2005) and Sullivan and Shkolnikov, (2007). (Hasan, 2010)

- Arjoon (2005) posits that a compliance based approach to governance has not sufficiently coped with the challenges that the modern business has presented. Consequently, companies are pressured into meeting stakeholder demands for accountability and transparency. This is typified by the agency theory where the wealth of stakeholders is made priority, organisations seem to focus on compliance rather than the substance of governance practices. (Moodley, 2010)

- Connecting legal considerations with business concerns illustrates some of the central tension in corporate governance (Arjoon, 2005). Even though boards are afforded specific legal protections with respect to their use of documents and procedures, the challenges that surround these protections are far from being resolved (Arjoon, 2005). Arjoon explains the threat of an increased focus on the law in governance studies could trigger "a subtle substitution of accountability for responsibility and may also result in an attempt to legislate morality, which consequently leads to legalism. Legalism is an approach which emphasizes primarily the strict and precise observance of law while tending to overlook the purpose for which the law exist. (Durkee, 2010)

- There has been a tendency to overemphasise legal mechanisms focused on accountability rather than ethical responsibilities to provide accurate statements; the tendency to focus on fraudulent practices does not address fundamental ethical responsibility (Arjoon, 2005). (Ferrell & Ferrell, 2011)

- While existing studies show that BE enhances CG (Diacon and Ennew, 1996), they often fail to recognize that effective CG entails ethical commitment on the part of management as well as a legal system for its enforcement (Arjoon, 2005; Nakano, 2007). We examine the impact of BE on the relationship between CG and the COC. Table VI indicates that CG is positively correlated with BE; that is, corporations with more comprehensive CG tend to exhibit strong commitment to BE, which is consistent with prior studies (Arjoon, 2005; Diakon and Ennew, 1996; Nakano, 2007; Rodriguez-Dominguez et al., 2009; Thomsen, 2001). (Pae & Hee Choi, 2011)

- For example, some have sought to frame CR according to the implications of ethical theory about what corporate conduct is or is not (e.g., Arjoon, 2000). (Hillenbrand, 2012)

- The main issue is the inadequacy of the present structure of corporate governance...Recent debates on corporate governance concepts are incorrectly described and do not fit all corporations (Stenberg, 1997), that they are superficial, neglect to consider the human side of governance (Sonnenfeld, 2004), and lack moral obligation (Arjoon, 2005). (Othman et al., 2011)

[4] “Striking a Balance between Rules and Principles-Based Approaches for Effective Governance: A Risks-Based Approach,” *Journal of Business Ethics*, 68(1): 52-83 (2006).

This paper builds on the previous paper on *Corporate Governance: An Ethical Perspective* highlighting the drawbacks of an excessively heavy reliance on rules-based

approaches to governance that may increase the cost of doing business, overshadow essential elements of effective corporate governance, and create a culture of dependency which can result in legal absolutism. This paper points a way forward using a risks-based approach that captures the benefits of both rules-based and principles-based approaches. A key consideration is how ethical standards can be improved without introducing additional legislations or regulatory burdens (that can result in doing more harm than good) through striking an optimal balance between rules-based and principles-based approaches. The risks (downside and upside) of both approaches are presented. The paper demonstrates the importance of a strong ethical organisational culture (organisation DNA) as the basis of new corporate governance measures that provides an opportunity to develop a competitive advantage as these represent a potential source of differentiation, and strengthens the relations with stakeholders by building a culture of trust and integrity in promoting investors' confidence. The paper uses a Hegelian dialectical approach which consists of a *thesis* (rules-based) and an *antithesis* (principles-based) in deriving a *synthesis* (risks-based).

This paper has been cited twenty-five (25) times (Appendix A) in which the focus has been on the risks-based approach, organisational culture and compliance including: good governance principles make up an informal normative framework of how it should be in order to be good, leadership and personal behaviour of those charged with governance are critical to creating an ethical corporate culture, that a heavy reliance on rules and regulations which promote good governance and ethics may be a sub-optimal solution (effective governance means adhering to ethical principles, not merely complying with rules) and that formal corporate governance structures are not sufficient to guarantee firms will adhere to regulation, benchmarks from a cultural assessment process can become the foundation for an ethics and compliance program (as well as a solid control environment) which can withstand scrutiny and propel companies to new heights of success in maintaining an effective organizational DNA (this promotes a corporate governance culture of trust, integrity and intellectual honesty, while fulfilling the common law or professional duties of good faith, diligence, care and skill), corporate collapses provide an impetus for examination of organisational and individual factors that contribute to corporate and employee non-compliance and work-related deviancy and that principle-based compliance motivates organisations to focus on higher level regulatory aims (in effect going beyond traditional notions of compliance or more colloquially, as 'doing the right thing' with respect to community values), the board of directors both individually and collectively possess the transformational influence that

establishes the organisational values-based climate (through which ethical values, expectations with ethical conduct, legal compliance, and social responsibility are communicated), in a specific type of culture (characterised by specific values such as openness, trust and honesty) employees are more likely to engage in compliance behaviours which collectively will contribute to organisational compliance, and that training should be intended to provide the tools people can use to reach an ethical decision on their own and teach them to consider the consequences of their actions well in advance. Some selected citations (taken from Appendix A) include:

- Legitimacy or compliance refers to following the regulations. Good governance principles make up an informal normative framework of 'how it should be, in order to be good'. It's assumed that one follows the principles, but generally principles are not enforceable legally. Yet, they are subject to social control (Arjoon, 2006). (Spanhove & Verhoest, 2007)

- In a fraud setting, concerns arise about the leadership and personal behavior of those charged with governance (i.e., management, board members, external auditors, internal auditors), which are critical to creating an ethical corporate culture (Arjoon, 2006; Carlson and Perrew, 1995; Rockness and Rockness, 2005). (Almer et al., 2008)

- Our findings add to the debate developed by Arjoon (2006), who, in this journal, argues that a heavy reliance on rules and regulations that promote good governance and ethics may be a sub-optimal solution to the issue. Consistent with Arjoon (2006, p. 53), who states that, "Effective governance means adhering to ethical principles, not merely complying with rules..." we find that formal corporate governance structures, in themselves, are not sufficient to guarantee firms will adhere to regulation. Instead, the internal ethos and culture of firms can be more important drivers of ethical behavior and regulatory compliance. (Bajo et al., 2009)

- Considering it from the perspective of organizational risk, Arjoon (2007) stated: "Benchmarks from a cultural assessment process can become the foundation for an ethics and compliance program, as well as a solid control environment, which can withstand scrutiny and propel companies to new heights of success". According to Arjoon (2007) citing McKee "The challenge is to maintain an effective organizational DNA ... that promotes a corporate governance culture of trust, integrity and intellectual honesty, while fulfilling the common law or professional duties of good faith, diligence, care and skill". Continuing with a risk based approach to corporate governance, he stated: The risks-based approach is designed: (1) to support value creation with good corporate governance by helping companies to deal effectively with potential future events that create uncertainty, (2) to respond in a manner that reduces the likelihood of downside outcomes and increases the upside, and (3) to seize opportunities. (Mehta, 2009)

- Recent corporate collapses (e.g. Enron) provided impetus for examination of organizational and individual factors that contribute to corporate and employee non-compliance and work-related deviancy (Arjoon, 2006). Legal scholars (Haines & Gurney, 2003; 2004) have argued that principle-based compliance motivates organizations to focus on higher level regulatory aims, in effect going beyond traditional notions of compliance (Murphy, 2004), or more colloquially, as 'doing the right thing' with respect to community values (Arjoon, 2006:58). A culture that encourages compliance among employees has been referred to as a 'culture of compliance' (e.g., Lotzthof, 2006; Rasmussen, 2006). The basic proposition is that in a specific type of culture,

characterized by specific values such as openness, trust and honesty (Arjoon, 2006; Lotzhof; Rasmussen; Gebler,2006), employees are more likely to engage in compliance behaviours which collectively will contribute to organizational compliance. (Interligi, 2010)

- Common governance best practices and standards that establish overall responsibility for ethical and legal compliance that align with long-term interests must start with the board of directors, regardless of the country in which the company resides (Arjoon, 2006). Sarbanes-Oxley Act of 2002: The act contains a wide range of financial reporting standards for all American public company boards, management, and public accounting companies (Arjoon, 2006). (Yocam, 2010)

- The board of directors both individually and collectively possess the transformational influence that establishes the organizational values-based climate through which ethical values, expectations with ethical conduct, legal compliance, and social responsibility (Arjoon, 2006). (Yocam, 2010)

- The basic proposition is that in a specific type of culture, characterized by specific values such as openness, trust and honesty (Arjoon, 2006; Lotzhof; Rasmussen; Gebler, 2006), employees are more likely to engage in compliance behaviours which collectively will contribute to organizational compliance. (Interligi, 2010)

- Training should be intended to provide the tools people can use to reach an ethical decision on their own and teach them to consider the consequences of their actions well in advance (Arjoon, 2006). (Andreadakis, 2011)

[5] “Ethical Decision-Making: A Case for the Triple Font Theory,” *Journal of Business Ethics*, 71(4): 395-410 (2007).

This paper offers a comprehensive and practical approach to ethical decision-making that is embedded in traditional wisdom. It develops Aquinas’(1981) Triple Font Theory (TFT) by integrating the conceptual components of major moral theories into a more systematic decision-making model. Specifically, it advances the thesis that virtue theory ought to be included in any adequate justification of morality and consequently the need to integrate notions of virtue into various act-oriented or principles-based ethics. The role of practical judgment is shown to play a constitutive role in providing a guide for right action and is the ‘glue’ that integrates the various components of the TFT. In particular, the paper demonstrates how practical judgment can be used to analyse difficult moral dilemmas in the application of the *Principle of Double Effect* (PDE). This paper also defends the application of the PDE which has widely been misunderstood and misapplied; it can only be properly understood in an Aristotelian-Thomistic framework. The role of practical judgment in properly applying the PDE is discussed. Practical judgment can be applied through either *taxonomic* (defined as a method of classification based on predetermined criteria used to provide a conceptual framework for analysis) or *geometric* (defined as a method which uses predetermined criteria to identify whether or not a particular system conforms to the criteria) moral reflection. In

particular, the paper illustrates how the geometric application of the PDE can be misleading in using the incorrect paradigm case for determining conformity.

This article has been cited eleven (11) times (Appendix A) including in the *Oxford Handbook of Business Ethics* which recognises the paper for an approach that combined various normative methods. Mitchell and Yorda (2009) comment that while the Triple Font Theory is seemingly simple in its statement (that incorporates the moral end of the action, the subjective intention of the agent, the circumstances and consequences of the action, as well as the incorporation of virtue ethics), this theory is not helpful to the student (or business person) who has little background in philosophical theories. Of course, some formal training is required in the proper application of this theory.

[6] “Reconciling Situational Social Psychology with Virtue Ethics,” *International Journal of Management Reviews*, 10(3): 221-243 (2008a).

This paper addresses the controversy between virtue ethics and situational social psychology which has been described as one of the most venerable and most heated debates in philosophy (an area so contentious that some fear a dialectical stalemate). This paper provides a comprehensive and critical review of the literature on virtue ethics and social psychology. Situationists propose a *fragmentation theory of character* (each person has a whole range of dispositions each of which has a restricted situational application) and do not subscribe to a *regulatory theory of character* (behaviour is regulated by long-term dispositions). It is proposed that the substantive claims made by situationist social psychologists, for the most part, do not undermine or disagree with an Aristotelian-Thomistic moral characterological virtue ethics perspective, but stem from a misunderstanding of concepts of moral character, and faulty conclusions and generalisations in respect of experimental results. The distinctions among *enkritic* (refers to a person who experiences feelings that are contrary to reason but acts in accordance with reason), *akratic* (refers to a person who experiences feelings that are contrary to reason but gives into those feelings rather than reason), *astheneia* (refers to a person who goes through a process of deliberation and makes a choice that is contrary to reason), *propeteia* (refers to a person who does not go through a process of deliberation and so does not make a reasoned choice), *virtuous* (refers to a person who acts with promptness and takes delight in acting in accord with moral principles and in refraining from unethical acts), and *vicious* (refers to a person who acts with promptness and without remorse in acting against moral principles) character traits are instructive in understanding human conduct and

behaviour. What is required to reconcile situationist social psychology with virtue ethics is a normative moral theory concerned with regulative ideals (as suggested by both situationists and virtue ethicists) to explain and guide human behaviour, with the ethical aims of character development and situation management. As a way forward in reconciling situational social psychology with virtue ethics, the paper proposes an Aristotelian-Thomistic framework to overcome some of the problems associated with inter-goal conflict and imprecision, and inadequate regulative deals in building a normative moral theory. It appears that social psychologists tend to underestimate or fail to appreciate the intellectual structure of virtue in proposing a strategy of self-regulation in order to close the gap between ‘knowing and doing’. The Aristotelian-Thomistic natural law-virtue ethics framework incorporates practical judgment in reminding one why it is important to do the right thing especially in morally-challenging situations (this avoids goal conflicts in promoting an ethics of virtue in identifying the relevant moral requirements) and derives a set of strategic rules and a decision-making procedure for dealing with such situations (this avoids goal imprecision in promoting a natural law ethics which provides the agent with the knowledge of moral objective and a general set of strategic guidelines).

Some selected citations on this paper include: the environmental influence need not be as catastrophic a blow to the idea that individual virtues as some psychologists believe, virtue ethics appears to be one potential framework with normative extensions to the extent that normative approaches grounded in virtue ethics take into account the influence of both situational context and individual differences on ethical decision-making, provides a balanced view of the interaction between environmental influences (relevant to the “situationist” view) and inner characteristics (relevant to the Aristotelian “virtue” perspective) in addressing the issue of when “good” people go “bad”, and that virtue ethics recognises that the difference between good conduct and bad conduct can depend on the situation more than the person (it is not that people do not adhere to standards of moral conduct but that they can be induced to ignore these moral standards with such ease). The following are some selected quotations (taken from the citation list from Appendix A):

- Influenced by our surroundings need not be as catastrophic a blow to the idea that individual virtues as some psychologists believe. (Gaskarth, 2008)
- To the extent that normative approaches grounded in virtue ethics take into account the influence of both situational context and individual differences on ethical decision-making, virtue ethics appears to be one potential framework with normative extensions. (Salvador & Folger, 2009)

- When do “good” people go “bad” is provided by a balanced view of the interaction between environmental influences (relevant to the “situationist” view) and inner characteristics (relevant to the Aristotelian “virtue” perspective). (Bailey et al., 2010)

- While globalist moral psychologists adhere to the notion that virtue ethics entails behaving consistently within a framework of *robust character traits*, new thinking in the field of virtues ethics holds that this is not necessary for virtue because the difference between good conduct and bad conduct depends on the *situation* more than the person (it is not that people do not adhere to standards of moral conduct but that they can be induced to ignore these moral standards with such ease...and it does not take much for a person to encounter moral failure): (a) people who are *not* in a hurry are six (6) times more likely to help an unfortunate person, (b) people who found a dime on the street were twenty-two (22) times more likely to help a woman who had dropped her papers, (c) people were five (5) times more likely to help an apparently injured man when there was low ambient noise (no lawnmower running nearby), and, (d) people primed by searching for plural pronouns (for example, *we, us, ours*) in writing samples were more likely to report that belonging, friendship and family security were important values in their life than if they searched for singular pronouns (for example, *I, me, mine*)....what matters to people can be influenced by things that do not matter very much, yet, encountering these influences can derail people’s inclinations to adhere to moral standards. (McGregor, 2010)

[7] **“Slippery when Wet: The Real Risk in Business,” *Journal of Markets and Morality*, 11(1): 77-92 (2008b).**

This paper directly addresses the issue: why do so many well-respected corporate leaders and top executives cross moral boundaries apparently without fear of the potentially disastrous consequences? It focuses on the factors that contribute toward corporate deviant behaviour from both an individual perspective and an organisational perspective; recommendations are made to promote ethical behaviour. The paper further develops the theoretical framework of the *Continuum of Compromise* (CoC), posited by Gilmartin & Harris (1998), which demonstrates the potential for radical deterioration of socio-moral inhibitions and a perceived sense of permissibility for deviant conduct (captured by the metaphor *slippery slope*). Specifically, this paper strengthens the theoretical framework of the CoC by incorporating three attitude profiles: *the virtuous*, *the ordinary unethical behaviour*, and *the egoist*. Three examples are used to illustrate how a company or person goes from being a virtuous, well-respected entity to its demise – with dramatic and disastrous consequences. This transformation can take place over a number of years (as in the case of Arthur Andersen), in a matter of weeks (as in the case of Barings), or even days (as in the case of Martha Stewart). The paper concludes with recommendations on how one can move up the slippery slope by developing a strong ethical organisational culture through the practice virtues especially for those whose responsibility it is to govern. Though not explicitly mentioned, the cardinal

virtues play an essential role in moving up the slope in informing culture and attitudes: *prudence* (decisions based on integrity), *justice* (shows sincere concern for others), *fortitude* (consistently does what is right and not necessarily expedient), and *temperance* (accepts responsibility for one's actions). In order to address the rotten barrel (the organisational environment) influence, the paper recommends that it is important to build a culture of integrity through incentives (rewards for ethical behaviour and consistent enforcement of appropriate disciplinary mechanisms for ethical violations), develop systems to ensure the right attitude at the top including board involvement in ethics and compliance programmes, and attention to the cultural dynamics that adhere to overarching principles (including principles-driven codes). With respect to the rotten apple influence, the paper suggests: emulating the behaviour of moral exemplars, seeking advice from someone who has consistently demonstrated good practical judgment, avoiding morally-dangerous situations and seeking situations that are conducive to ethically-desirable conduct, avoiding high pressure decisions situations (if possible) and encouraging decisions in situations where one can deliberate and reflect on personal/corporate values, and actively engaging in moral reflection and imagination to ensure the education and formation of one's conscience.

[8] "An Aristotelian-Thomistic Approach to Management Practice", *Philosophy of Management*, 9(2): 47-64 (2010a).

Every academic endeavour rests ultimately on a particular assumption of human nature. Two views of human nature are compared and contrasted: (1) a utilitarian naturalistic humanism which holds essentially the view that human nature is materialistic, and (2) an Aristotelian-Thomistic humanism which holds the view that human nature is both materialistic and spiritualistic²⁰ (Davis, 1997; Audi, 1995; Vaughn & Dacey 2003). Klonoski (2003) gives an excellent overview of the human nature including its capacities, faculties, dispositions, and sentiments. He relates the distinction between the two broad and opposing views (as reflected in Arjoon, 2010a): Adam Smith (*The Wealth of Nations*)/David Hume (*Of Commerce/Of Refinements in the Arts*) and Aristotle (*Politics*)/Aquinas (*Summa Theologia*). The former are of the view that the passions provided great promise for individual human development and believed that commerce, fuelled by the passions, has a profound civilising effect on human

²⁰ These two views are broad categories and are not meant to be exhaustive accounts of human nature. For example, *Cartesian dualism* promotes the view that the body is not intrinsic to who one is, but the soul (the thinking thing) inhabits the body like a *ghost in a machine*. An Aristotelian-Thomistic account embraces a unitary understanding of human nature according to which embodiment is intrinsic to human personhood. In other words, the human body and its inclinations are the expression of the human soul and are part of who one is.

society. The latter argue that there exists an appropriate measure (determined in relation to what serves the perfection of human nature, that is, what help one to live well and develop a virtuous character) for the procurement of wealth and goods, and believe that commercial activities can have a corruptive influence on one's development as a person (p. 27). Klonoski (2003) concludes that the Humean/Smithean conception of human nature has come to be described by the phrase *homo economicus*: a self-interested, utility-driven pursuer of goods who determines the values of goods simply by virtue of choosing and using them (according to this view, the specific purpose of a business is the efficient production and distribution of useful goods and services in a market economy). This view represents a materialistic account of human nature described as *a bundle of preferences* whose properties (Dobson, 2010) include: *comparability* (comparisons can be made among preferences), *consistency* (comparisons are consistent over an array of alternatives), *independence* (original preference orderings are independent of new preference alternatives), *measurability* (preferences are measurable), *ranking* (preferences can be consistently and ordinally-ranked), *transitivity* (choices are made that are consistent with having preferences). Aristotelian-Thomism argues that one seeks happiness or human fulfilment through an ordered pursuit of goods in which passions are ruled by one's rational capacity. Depending on which view of human nature one adopts is key to determining the purpose of business and related activities including leadership, corporate social responsibility, and other management practices as discussed in our paper.

This paper argues that the Aristotelian-Thomistic view of human nature better captures and explains the metaphysical realities of human nature. The principles of the natural law humanism provide the foundation for the social principles which have profound moral significance in promoting human dignity, specifically, through the principles of the *common good, subsidiarity, solidarity, universal destination of goods, participation, and stewardship*. In addition, the role of virtues and its applications in management practice are presented. Organisational policy mechanisms and managerial implications (with respect to the goal and nature of business, guiding principles and moral responsibility, rationality and market forces, the role of virtues, goods to be pursued, the view of work and determinants of moral behaviour) will depend on which view of human nature one adopts. This distinction between the organisational policies and practices under the naturalistic humanism and the Aristotelian-Thomistic humanism are presented in the paper. The failure to integrate the virtues and natural law ethical principles into management practice threatens the stability and survival of the firm

since they are required to correct the dysfunctional aspects and ethical deficits of the utilitarian business philosophy.

CHAPTER 3

Methodological Approaches

The scientific methodology, in general, uses either a *rational* or *deductive* approach (starts from first principles to applications) or an *empirical* or *inductive* approach (starts from data from sense experience, observations or experiments and proceeds to generalisations). The methodology of ethics incorporates a mixture of both induction and deduction based on the experience of human behaviour and knowledge of human nature. An Aristotelian-Thomistic methodological approach makes use of human knowledge obtained through sense experience (in this view, to understand the physical universe, sense observation is the starting point of all knowledge) through which it infers abstract universal knowledge by use of reason. This approach also seeks causes of reality that are beyond the reach of the sense (for example, knowledge of good and evil, will and intellect, freedom, etc.) and so also makes use of intellectual evidence (reasoning from the first principles of speculative and practical reasoning) in recognising that there is a continuity between sense knowledge and intellectual knowledge.

The articles that comprise the basis for this integrating essay are fundamentally rooted in philosophical enquiry with different modes of enquiry. One of the foundation papers, Arjoon (2000), develops a meta-theory of business based on virtue theory in which the concepts of the virtues, the common good, and the dynamic economy are linked into a unifying framework. Drucker's (1994) *The Theory of the Business* provides the theoretical basis for this paper and notes that assumptions on which the organisation has been built and is being run no longer fit reality in stating that there is nothing quite so useless as doing with great efficiency what should not be done at all. His theory is based on three assumptions about the environment (in our case, the concept of the dynamic economy), the mission (in our case, the concept of the common good), and the core competencies (in our case, the concept of virtues). All three assumptions ought to shape the organisation's behaviour, dictate its decisions about what to do and what not to do, and define what it considers meaningful results. Further, all three assumptions have to fit one another (for example, the common good cannot be fully understood without the notion of the virtues), must be known and understood throughout the organisation, and have to be tested constantly. MacIntyre's (1984) notion of practice (defined 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, p. 187), virtues (...understood as those dispositions which will not only sustain practices and enable us to achieve the goods internal to practices, but will also sustain us to overcome the harms, dangers, temptations and distractions which we encounter, and which will furnish us with increasing self-knowledge and increasing knowledge of the good, p. 219), de Torre's (1984) notion of the common good (a juridical order and social situation such that opportunities for every person in society to develop himself or herself to the full (materially, culturally, spiritually) are maximized, p. 22), and Schumpeter's (1975) idea of the dynamic economy and creative destruction (entrepreneurs' innovations disrupt the existing static productive framework leading to progress thereby imparting a dynamism to the economy) are critical components of this paper.

Arjoon (2007) attempts to strengthen and integrate the conceptual components (moral object, personal intentions, circumstances and consequences) of the *Triple Font Theory* of morality into a systematic, internally consistent model that is more general and comprehensive than its agent-based or act-based counterparts for ethical decision-making by emphasising the role of virtues. In particular, the paper advocates the use of the *Principle of Double Effect* (Aquinas, 1984, 2-2, q. 64, a. 7) for resolving ethical dilemmas in business. The principle presupposes that a theory of agency which allows that there are kinds of actions which are good and bad, for example, moral rules that direct one to respect basic human goods or values (that is, a certain ordering among goods that one pursues). The role of practical judgment (identifying the relevant aspects in the given circumstances, deliberation on how to best resolve the concrete problem, and which virtues are required for making a reasoned choice according to the mean of excess and deficit) in decision-making is underscored in respect to its application to principles and rules. A distinction is made between a *geometric methodology of conformity* (the principle is invoked to determine whether or not a particular case and its solution conform to certain stipulated conditions) and a *taxonomic methodology of comparison* (employs a detailed comparison and contrast of related cases which requires the use of practical judgment) in properly applying practical judgment to ethical decision-making principles. The paper illustrates how the geometric application of the principle can be misleading and stresses the importance of applying a moral taxonomy methodology using practical judgment.

Arjoon (2008b) attempts to strengthen and extend the theoretical framework of the *Continuum of Compromise* which provides a plausible explanation of the *slippery slope* phenomenon by integrating and correlating three attitude profiles (the virtuous, the ordinary unethical behaviour, and the egoist) with three transition stages (acts of omission, acts of administrative commission, and acts of criminal commission) of the slippery slope. The paper further develops the theoretical framework of the *Continuum of Compromise* (CoC), posited by Gilmartin & Harris (1998), which demonstrates the potential for radical deterioration of socio-moral inhibitions and a perceived sense of permissibility for deviant conduct (captured by the metaphor *slippery slope*). Factors that contribute toward the gradual decline down the slippery slope fall under two (2) types of rationalisations: (1) *rotten apples* (persons who succumb to the temptations inherent in the work environment) and (2) *rotten barrel* (the work environment provides many opportunities to learn and develop patterns of deviant behaviour).

Arjoon (2005b) uses the concepts of *freedom of indifference* and *freedom for excellence* (Pinckaers, 2001) which provide the theoretical basis for explaining the different ethical behaviour that arises from legal and ethical compliance approaches respectively. The former is the source of the ethics of obligation which is viewed as external limits imposed on the decision-maker (it reduces ethical behaviour to a law of duty or cases of conscience that presupposes a freedom which can be limited only in its external expression); the latter inspires an ethics of virtue which governs the dynamism and development of person's faculties in pursuit of human flourishing. Under freedom of indifference, one runs the risk of losing sight of the common good (which unites all acts in one same intention) since ethical considerations risk losing its formative role if each act is viewed as independently governed by obedience or submission to the law. Freedom for excellence, on the other hand, engenders a morality that regards human flourishing as decisive for ordering one's life and the formation of one's character. The fundamental issue (in attempting to reconcile the moral life with happiness) is whether one can be moral without renouncing happiness or whether one can be happy without transgressing the norms of morality. Pinckaers (2001) points out that if law is the source of morality, then human acts since they are born of a choice between contraries are by nature indifferent – they become morally good or bad insofar as they conform to a legal obligation²¹.

²¹ Pinckaers (2001) further argues that with the advent of nominalism in the 14th century, we witness the formation of the first morality of obligation in which the moral life is circumscribed by obligations (in other words, obedience to law has priority over happiness). Further, Ockham pushed this view to its logical extension

The vital bond that unites happiness to the virtues is promoted by a freedom for excellence since *the virtues are like the arteries that carry strength and disperse joy throughout the entire organism of the moral life* (p. 80).

Arjoon (2008a) provides a comprehensive literature review on virtue ethics and social psychology. The paper proposes an Aristotelian-Thomistic natural law-virtue ethics framework as a normative moral theory in offering strategies and regulative ideals for attaining self-regulation with its associated challenges of goal conflict (knowing what is the right thing to do) and goal precision (implementing an appropriate decision-making process). The proposed framework helps explain and guide behaviour with the ethical aim of character development and situation management. Arjoon (2010a) argues that an Aristotelian-Thomistic humanism better captures and explains the metaphysical realities of human nature than its utilitarian counterpart. The paper demonstrates how the principles which form the basis of such humanism provide the foundation for the social principles (such as the common good, subsidiarity, solidarity, universal destination of good, participation, and stewardship) that promote human dignity and ethical management practice.

In order to reconcile and integrate rules-based and principles-based approaches to corporate governance, Arjoon (2006) employs dialectical reasoning which has a long and important role as a method of philosophical argumentation. Its origin is attributed to Socrates in an approach to discover knowledge of the truth through criticism, questioning, and self-examination: it begins with one who believes that one knows the meaning of some particular concept, then through a dialogue of intense questioning by an antagonist, one comes to realise that one lacks the precise knowledge of the matter under enquiry. This process of reasoning is also known as the *Socratic Method*. Essentially, this approach attempts to discover or uncover the truth about something by working one's way through a series of partial truths. The dialectical methodology received its highly formalised expression by the German idealist philosopher (Pippin, 1997), Georg Wilhelm Friedrich Hegel (1770-1831). His philosophical procedure consists of a *thesis* (the statement of the idea of *being*), an *antithesis* (the denial of the statement of *non-being*) and a *synthesis* (the union of thesis and antithesis of *becoming*)²².

in affirming that if God ordered someone to hate him, in this case hate itself would become good since it would be an act of obedience to the Creator's will (p. 72).

²² Hegel ascribed the methodology of thesis-antithesis-synthesis to Kant and the terminology was largely developed by the neo-Kantian Johann Gottlieb Fichte; the purpose of dialectics, according to Hegel, is to study things in their own being and movement in order to demonstrate the finitude of the partial categories of

Another German philosopher, Karl Marx (1818-1883), adopted Hegelian dialectical reasoning in proposing his *historical materialism* (an interpretation of history exclusively in economic terms through the struggle for justice). In order to emancipate society, the proletariat or lower class will rise against the bourgeois or ruling class: the thesis is primitive collectivism, the antithesis is private property, and the synthesis results in communism. Dialectical inquiry is not a trade-off or compromise but a logical process at arriving at substantial truth. Dialectical reasoning reflects the law of progress or change²³ and involves great effort in carefully weighing two opposing points of view to discover what is beyond the sensible using both moral imagination and intellectual perceptions. The dialectical reasoning process can be continually reiterated in that the synthesis forms the basis of a new thesis with the development of another antithesis resulting in a new synthesis, and so on. The history of humanity, in its search for freedom, is a classic example of this dialectical development²⁴.

Sorensen (2002) makes a case for the relevance of dialectical reasoning and understanding in business strategy and argues that dialectics is the optimal way to handle conceptual tensions, paradoxes, dilemmas and apparent contradictions. Bergadda (1999) presents a dialectical method of investigation for firms which need to: (1) rigorously investigate the opportunities and constraints of their future environment, (2) formulate a specific and pragmatic set of strategic objectives, and (3) implement rapid, important changes in the organisation through the personal involvement of change agents. De Wit and Meyer (2006) mention the following advantages of taking a dialectical approach to strategic paradoxes and complexity: a range of ideas can be explored, it helps focus on points of contention, it provides a stimulus for bridging seemingly irreconcilable opposites, and it provides a stimulus for creativity in attempting to arrive at a synthesis. Takeuchi et al. (2008)

understanding. Hegelian dialectics cannot be applied in a mechanical way (although critics have argued that the selection of any antithesis, other than logical negation of thesis, is subjective and that there is no rigorous way to derive the thesis (<http://en.wikipedia.org>)). According to Hegel, the idea of *being* is negated by its opposite *non-being* (they are *pure indetermination*) and so neutralise each other and the synthesis idea of *becoming* emerges (de Torre, 1980). This *dialectical idealism* (ideas progressively negating each other, thereby mediating each other, and synthesising into higher ideas) implies that conflict and change are at the very heart of reality (p. 298). Under Aristotelian-Thomism, this synthesis represents a contradiction or confusion of the two concepts of pure indetermination of being with its opposite pure indetermination of non-being (p. 298).

²³ The law of progress is a social law which embodies the governing operative dynamics of human development, societal evolution and revolution (<http://EzineArticles.com>). Progress concerns the dealings of the human person with the material world; it does not bring forth the *new man* or the *new society* (as Marxism and liberalism teaches) but the human persons (both in primitive and technologically-developed situations) remain the same (Ratzinger 2006).

²⁴ Sheed (1993) argues that life is a dialectic (a tension of opposites) – life vs. death, suffering vs. happiness, freedom vs. law, etc. The dialectic approach may be also useful in dealing with apparently contradictory positions: individual vs. community, short-term vs. long term, loyalty vs. truth, etc.

use a dialectical approach in explaining how a culture of fostering contradictions has been a key to Toyota's success; Guglielmo (2008) shows how logic can be employed within dialectical reasoning within the social sciences.

In the case of Arjoon (2006), the thesis and antithesis represent the partial truths or best practice (that is, what works best or most effectively in a given organisational culture with respect to rules-based and principles-based approaches respectively) in informing the synthesis of a risks-based approach. With respect to the thesis, the rules-based approach includes the legal and regulatory requirements, codes of ethics, industry standards, reporting systems, etc.; the antithesis comprises principles which form the basis of organisational values (for example utilitarian and other consequentialist principles, deontological principles, natural law principles, competition principles, etc.). The process at arriving at a synthesis is not simply a mechanical process but ought to be guided by aspirational benchmarks, and systems that encourage ethical behaviour in the current business environment. For example, the synthesis would recognise that previous regulations were no longer relevant or adequate, or that certain principles did not encourage ethical and legal compliance. Each organisation would have to develop its own risks-based approach (synthesis) given its cultural dynamics (for example, the provisions outlined in the Dodd-Frank Act). Arjoon (2006) argues that the synthesis ought to incorporate principles of the common good, solidarity and subsidiarity to address the ethical deficit in attempting to avoid or minimise the number of future crises.

Though not explicitly stated, Arjoon (2005a) also uses a dialectical approach in proposing the thesis (liberalism) and the antithesis (socialism) in arriving at a third view or synthesis (communitarianism). This paper uses a meta-ethical approach which seeks to understand the nature of ethical statements, attitudes, and judgments by exploring their metaphysical, epistemological, semantic, and psychological properties. The methodological approach proceeds from both epistemological and metaphysical perspectives which systematise, deepen, and revive beliefs about how business ought to be conducted. This is accomplished by examining the anthropology of these beliefs. The epistemological perspective focuses on questions about the character of ethical knowledge in the sense that some concepts under different philosophical ideologies convey different meanings. The metaphysical perspective focuses on questions about the existence and character of ethical properties, in this case, the incorporation of natural law humanism in developing a communitarian view.

CHAPTER 4

Social Principles and the Role of Practical Judgment

Arjoon (2000, 2005a, 2006, 2010a) discuss the application of the social principles (which addresses two major ethical deficits in business: lack of respect for human dignity and working for the common good²⁵) derived from the Aristotelian-Thomistic anthropology of human nature. The principles which promote human dignity²⁶ include the common good, solidarity, and subsidiarity (Stabile, 2006; Sandelands, 2009). Arjoon (2000) recognises the centrality of the human person in all human affairs (including business) in arguing that: *It is ultimately the dignity of the human being that is the major criterion by which to judge the real progress of business and society since the value of the person is above that of economic and social development* (p.168). Sandelands (2009) also argues that the business of business is the human person in discussing a person-centred ethic for business based on these principles. Minnerath (2008) notes that the principles presume an anthropology (which observes and analyses human behaviour, and draws from the unchanging elements that come into play within life in society), at the centre of which is the dignity of the human person. Human dignity is reflected in the *Personalist Principle* (Mele, 2009): *human beings should never be treated as a mere means to an end* (negative formulation)/*persons should be treated not only with respect but also with benevolence and care* (positive principle) (p. 81). In other words, the subject of work ought to take priority over the object of work. Black (2000) elaborates on the concept of human dignity within a natural law context.

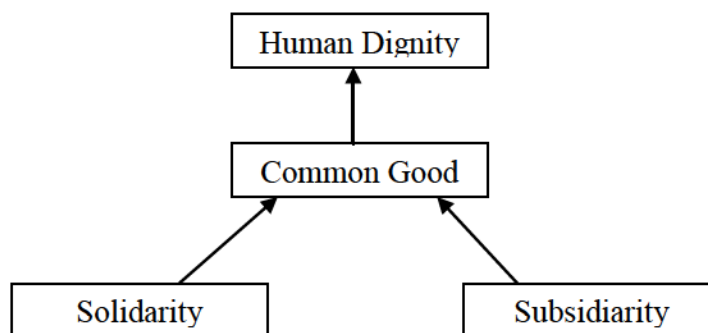
The elaboration of the principles are derived from the rational level (perceived and processed by reason) which discovers the fundamental relations existing among people through: (1) the means by which people of various beliefs can communicate and seek truth together, and (2) inclinations which are capable of discerning between good and evil by noticing the objective order of things (Minnerath, 2008). For example, solidarity derives from the social nature of the person, specifically in Aristotle's notion of *philia* which understands a

²⁵ Through an extensive process in 1994, the Caux Round Table developed the *Principles for Business* which embodies the aspiration of principled business leadership and is rooted in two basic ideals: *kyosei* (living and working for the common good by enabling cooperation and mutual prosperity to coexist with healthy and fair competition) and *human dignity* (refers to the value of each person as an end, not simply as a means to the fulfillment of others' purposes or even majority prescription). <http://www.cauxroundtable.org>.

²⁶ Hittinger (2008) notes that these principles have both a philosophical (Aristotelian-Thomism) and theological underpinnings; the dignity of the human person (in this context) is not to be interpreted on the premise of *methodological individualism* (social unities and relations among members can be reduced to non-social properties of members, p.78).

society as a community of individuals aiming toward communion; as a principle of political and social organisation, solidarity is a condition for the achievement of the common good (p. 49). Subsidiarity is an idea that can be found in Aristotle (*Politics*) which identifies some natural groupings (families, tribes, associations, neighbourhoods, villages, etc.) which are self-sufficient for some tasks but not for others; in the case where the groups are not self-sufficient, the city or larger authority helps them survive by supplying what they cannot provide for themselves (p. 52). Solidarity ensures that all members of society have access to the necessary goods for a worthy and human life, while subsidiarity protects the good exercise of governance by giving each group the vital space it requires for effective operation and regulating the powers that intervene in society (p.55). The common good stems from the dignity, unity and equality of all persons; it reflects the social conditions which allow all persons to attain their goal of human flourishing (materially, spiritually, culturally, etc.). Jones and Waller (2010) develop a model which operationalises the means for understanding and evaluating social actions using the triad principles of solidarity, subsidiarity, and the common good for advancing human dignity. Figure 2 shows the relationship among these principles which shape an integral ethical approach to business and economic life in which the centrality of the human person is embedded.

Figure 2
Relationship among Principles:
Centrality of the Human Person



The principle of the common good balances the excesses of principles of solidarity and subsidiarity in promoting human dignity (Arjoon, 2005a). These principles have a profoundly moral character and significance since they are based on the social nature of the human person; they also provide the criteria for the discernment, orientation, and the ultimate organisational foundations of social interactions (Arjoon, 2010). These principles guide and direct the primary goal of human affairs with respect to production, trade arrangements and

systems, political institutions and social welfare. Arjoon (2000) argues that the promotion of the common good ought to be the central ethical mission of all stakeholders since it advances the good of everyone based on a juridical order of rights and duties. This idea takes on the character of an unavoidable moral obligation since it promotes individual moral responsibility of personal cooperation in making one aware of the legitimate needs of others. Each person or economic entity therefore needs to assume a greater responsibility to attain the common good, to promote it, and to defend it. The primacy of the common good over the individual good comes about because the former promotes the latter: in promoting the common good, one is actually promoting one's own good through enlightened self-interested behaviour. In this respect, Donati (2008) notes that the common good represents the social and community dimensions of the moral good and are products of those actions and systems that have human dignity as their value model (referring to both the individual and one's social relations) which operates through solidarity (all are responsible for each other), subsidiarity (which supports others in accomplishing their tasks by providing the necessary resources), and the common good (according to one's capacities).

The common good promotes the well-being of both firms and employees in recognising their interdependencies since neither can exist without the other (Arjoon, 2005a). Though both parties have self-interested positions (management is interested in the bottom line and employees are interested in their wages, benefits, and working conditions) which often strain their relationship, the common good merges these two interests into a common enterprise which aligns personal and corporate values (management must be genuinely interested in the welfare of the employees who ought to promote the success of the business). The utilitarian business paradigm understands the common good as the sum of individual goods which has the consequence of promoting the interests of some at the expense of others. For example, Benmelech and Moskowitz (2009), in investigating the causes and consequences of the political economy of financial regulations in the nineteenth (19th) century United States, find a positive relationship between wealth-based suffrage restrictions and economic regulations designed to exclude certain groups. Over the years (especially with the advent of the global financial crises), the common good has taken on a more global dimension which embraces responsibility toward future generation (*intergenerational solidarity and sustainability*) and protects human and social development from the negative consequences of *consumerism* and a *materialism* that encourage waste, excesses, and promote poverty. The common good can therefore be understood in two ways: (1) as a composite of many goods

(material, cognitive, institutional, moral, spiritual, etc.), and (2) as conditions which maximise the opportunity for the development of each and every person (materially, cognitively, morally, spiritually, culturally, etc.). In the Aristotelian-Thomistic view, the common good is not viewed as the mere sum of individual goods that is rooted in traditional thinking (for example, utilitarianism) in which individuals are pitted against each other in an irreconcilable tension, but recognises that both the individual and the common good are part of the whole.

The principle of solidarity reflects the social nature of people since the principle represents the awareness of peoples' interdependence, equality in dignity (the value of each person as an end, not simply as a means to the fulfilment of others' purposes or even majority prescription, and fundamental rights, and their commitment to promoting the common good in realising their roles as part of the *social mortgage*. The principle is manifested by the just distribution of goods and services (this refers to the social question in which groups are unable to share proportionately in the benefits of production), and just remuneration (one that takes into account the prevailing economic conditions, the employee's family circumstances, and the firm's capacity and competitive position) for work. Under this principle, each and every person is obliged to contribute to the common good at all levels manifested through the distribution of goods and remuneration for work. It presupposes the effort for a more just social order where tensions are better able to be reduced and conflicts more readily settled by negotiations. It also recognises the dynamic interdependence among firms, industries, and other communities; it leads firms to promote the good of all, even if by so doing the individual advantage of some may be affected. Management practice, based on this principle, encourages employees to be more productive, involved, and committed to their work since each person is obliged to contribute to the common good at all levels. The principle of solidarity therefore emphasises the common good, duties and responsibilities, cooperation and equality.

The principle of subsidiarity states that what can be accomplished by a smaller body ought not to be carried out by a larger one. For example, governance at a higher level ought not to interfere in the internal life at a lower level; the former ought to support and help to coordinate the latter's activities in the case of need (Arjoon, 2006). The principle of subsidiarity stresses rights, competition, privacy and freedom. This principle is one of the best forms of organisation that promotes effectiveness since it protects individuals from abuse and exploitation from higher level authorities, and at the same time, it helps individuals to fulfil their responsibilities while having the opportunity to learn, develop, innovate and create with

an appropriate understanding of autonomy and authority. For example, in order to eliminate layers of management bureaucracy, organisations should be encouraged self-managed teams, put decision rights at the appropriate levels, eliminate duplication or conflicts of responsibility within and among departments, simplify reporting functions, improve working relationships, and identify those who should be involved in the decision-making process. Self-regulation is another application of the principle of subsidiarity. The principle is perhaps best known in European Union Law (Article 5(3) of the Treaty on European Union): *Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by Member States, either at central level or at regional and local level, but can rather by reason of the scale or effects of the proposed action, be better achieved at the Union level* (<http://en.wikipedia.org/wiki/Subsidiarity>). Kotalik (2010) discusses applications of the principle to bioethics, public health ethics, ethics of personal care, and human research ethics. Other applications include international human rights law (<http://www.asil.org/ajil/Carozza.pdf>) and the case for crucifixes in Italian classrooms (<http://www.jus.uio.no>). With respect to proposed corporate governance reforms proposed by the United States Congress and the Department of Treasury, the reforms represent a violation of this principle in attempting to assert federal control over areas that have been traditionally handled by State laws (including board of directors' authority to determine the structure and functioning of the board itself since it undermines directional discretion and business judgment)²⁷.

Minnerath (2008) notes some other important considerations of the application of the principle of subsidiarity: it is not obtained by decentralisation which is a concession of the higher organisational level, but by the lower level's request for assistance to the higher levels of the social organisation; it curbs the individual's demand for maximum protection and the authority's tendency to invading all domains; it is violated when welfare states take charge of all the needs of society by relieving intermediary instances of all responsibility, while subsidiary states encourage the assumption of responsibility at the levels where problems can be solved and reserves the right to intervene in a subsidiary way when the latter are incapable of assuming their responsibilities; it differs from and is completed by the principles of

²⁷ Hittinger (2008) notes that *the sin of the modern state is the injustice of its claiming a monopoly over group-personhood – reserving what is 'distinct' in dignity' for itself and for individual persons* (p. 119). For example, in American politics we speak of “unfunded mandated”, by which the U.S. government forces its own burdens downward to the states and municipalities without adequate funding (p. 120).

speciality (the higher level only deals with the competencies attributed to it) and *proportionality* (the means employed by the higher level must not go beyond the goal settled upon), while subsidiarity is not a principle of allocation of competences (it presumes competencies) but a principle of regulating the exercise of competences (for example, does the authority have the competence to take action? to what extent?).

The principles of solidarity and subsidiarity regulate the dynamics of the market and are ways to organise a business that manifest the dignity of the human person. Both principles are intimately related since the balance between both sets the limits to prevent the excessive intervention of both the firm and the State. If solidarity is over-emphasised, the consequence will be the stifling of personal freedom and private initiative. If subsidiarity is over-emphasised, the result would be selfishness and greed. In order to promote the well-being of the firm and its employees, the primacy of the common good demands that both principles of subsidiarity and solidarity be balanced and kept inseparable.

The Role of Practical Judgment

The role of practical judgment is explicitly discussed in Arjoon (2000), Arjoon (2007), and Arjoon (2008). Arjoon (2000) highlights that practical wisdom, which forms a critical aspect of core competencies needed to promote the common good, is the most important among the cardinal virtues (only the prudent person can be brave, just, and temperate) since it is required for directing the other moral virtues (it instantiates the various moral virtues by recognising which virtues are called for in a particular situation and by recognising the best way to enact those virtues through the ‘golden mean’ of the virtues), it is necessary for ordering the various organisational goods together in one concrete act (Naughton et al., 1996), and for grasping the complexity of the business environment. Arjoon (2008) argues that it is precisely practical wisdom that bridges the gap between knowledge (to know the good) and action (to do the good) in promoting the motivation to do the right thing guided by a regulative ideal. Practical judgment involves the ability to recognise both morally and technically relevant features of a situation (including consequences) in order to deal effectively with them. It entails *a chain of reasoning whose first premises concern the human good, whose intermediate steps specify what the virtues require, if the human good is to be achieved, and whose conclusion is the action that is good and best for us to perform here and now* (MacIntyre, 1999, p. 159). Practical judgment presupposes that an agent acts to achieve an end (human good) and determines the best way to achieve this end. According to Pieper (1991),

practical judgment is the cautious and more decisive faculty of one's spirit for shaping things, the filter of reflection, and the daring courage for definite resolution that involves clear-headed thinking, uprightness, openness and impartiality, elevated above all difficulties and expediencies of the merely 'tactical'. Arjoon (2010) gives some applications to management practice of the cardinal virtues.

Arjoon (2007) attempts to integrate the virtues with act-oriented or principles-based approaches. General principles or rules, while they guide decision-making, do not provide the necessary details to make an informed decision in a concrete situation. O'Neil (2001) points out that they are either too abstract or indeterminate (suffer from excessive *formalism*) or offer a procedure or algorithm for guiding action that will prescribe uniformity and ethical insensitivity for situations that differ in subtle or ethically significant ways (suffer from excessive *rigourism*). Practical judgment begins with a dynamic orientation toward specific goods, and within a process of practical reasoning (perception of the morally-relevant aspects of the situation, deliberation about how to address the central aspects of the situation, and choosing the most appropriate response in the given situation), one learns about what actions are or are not morally permissible for the attainment of those human goods. Practical judgment therefore bridges the 'gap' between indeterminacy and algorithmic formulations by recognising features of the concrete situation that are morally-relevant, and by bringing the most pertinent considerations to bear in such a way that the most relevant concerns carry the most weight (Arjoon, 2008). It is useful to note that practical judgment is not simply understood as finding the best means to a morally legitimate end, but involves how all of one's acts considered as a whole fit into the end of human life (Curran & Fullam, 2011).

Practical judgment (and virtues in general) cannot be a matter of inference from principles, but they provide a point of reference for practical judgment which ensures that action is consistent with the application of principles (Fowers, 2003). Virtues, therefore, are not derivative of principles, but principles presuppose virtues (Waide, 1988). Arjoon (2007) notes a distinction between *virtuous acts in general* (that is, performing a just act by acting merely in accordance with moral standards) and *acting from virtues* (performing an act justly). Acting in conformity with moral standards does not guarantee moral worth of an action and implies that virtues are derived from principles. Virtues are required to realise those standards and in such a case (acting from virtues) the actions will have moral worth. Arjoon (2007) illustrates how a decision-maker ought to use practical judgment in the proper application of

the *Principle of Double Effect*. Fowers (2003) concludes that a reliance on intellectually-grasped principles, no matter how well-developed, can never be a substitute for practical judgment.

CHAPTER 5

The Virtue Ethics/Situationism Debate

The virtue ethics/situationist social psychology debate has been described as one of the most venerable and heated such that some fear that it is a dialectical stalemate (Fisher, 1994). Kristjansson (2008) remarks that, arguably, the debate has now reached what qualitative researchers call a *saturation point* (the point at which the addition of new participants fails to provide new and significant information). Arjoon (2008a) attempts to provide a more balanced view of the interaction between situational factors and inner dispositions in attempting to reconcile situational social psychology with virtue ethics. On the one hand, it appears that social psychologists underestimate the intellectual structure of virtue in that they take a narrower view of character and morality. Specifically, they propose a *fragmentary theory of character* (each person has a whole range of dispositions each of which has a restricted situational application) and do not subscribe to a *regularity theory of character* (behaviour is regulated by long-term dispositions). In order to support this view, they cite a number of experiments. On the other hand, it appears that virtue ethicists fail to appreciate the powerful influence of situational factors on ethical behaviour (according to McGregor (2010), it is not that people do not adhere to standards of moral conduct but that they can be induced to ignore these moral standards with such ease, and it does not take very much for a person to encounter moral failure). Arjoon (2006) recognises the importance of situational influences (the organisational culture) as critical driving forces in ethical transgressions; Arjoon (2007) notes that while situational factors (circumstances) are not the primary determinants of morality, they constitute a critical component in arriving at ethical decisions; and Arjoon (2008b) concludes that ethical behaviour is both a function of the organisational culture (including situational factors) and of the individual's stable character traits and dispositions (including the virtues). Arjoon (2008a) demonstrates that evidence from organisational behaviour and managerial research literature supports the view that both situational (organisational) features and inner characteristics (virtues) are powerful factors in addressing ethical behaviour.

The main contribution of Arjoon (2008a), as a way forward in reconciling situational social psychology with virtue ethics, is the articulation of an Aristotelian-Thomistic natural law-virtue ethics framework in proposing a strategy of self-regulation (the process in which one controls one's behaviour on the basis of one's belief) in order to close the gap between *knowing and doing*. This framework provides a moral theory that overcomes some of the problems associated with inter-goal conflict (the challenge of doing the right thing especially

in the context of powerful situational factors) and goal imprecision (the challenge to make the right decision among difficult decision alternatives) and which offers strategies for attaining self-regulation. The Aristotelian-Thomistic framework, it is argued, appears to be a potential framework that promotes the normative extension in addressing the issue of inadequate regulative ideals by incorporating practical judgment to remind one why it is important to do the right thing especially in morally-challenging situations (this avoids goal conflicts in promoting an ethics of virtue by identifying the relevant moral requirements) and derives a set of strategic rules and a decision-making procedure for dealing with such situations (this avoids goal imprecision in promoting a natural law ethics which provides the agent with the knowledge of moral objective and a general set of strategic guidelines).

The main proponents (philosophers and social psychologists) of situationism are Flanagan (1991), Ross & Nisbett (1991), Kunda (1999), Doris (2002), Goldie (2004), Doris & Stich (2006), Zimbardo (2007), Appiah (2008), Badhwar (2009), Harman (2009), Merritt (2009), Prinz (2009), and Vranas (2009). On the other camp, virtue ethicists who critique situationism include Athanassoulis (2000), Hartman (2001), Berges (2002), Annas (2003), Luban (2003), Samuels & Casebeer (2003), Solomon (2003), Kamtekar (2004), Sabini & Silver (2005), Stichter (2005), Flemming (2006), Wielenberg (2006), Bhuyan (2007), Webber (2007), Alzoa (2008), Besser-Jones (2008), Kristjansson (2008), Jost & Jost (2009), Kupperman (2009), Miller (2009), Sreenivasan (2009), and Upton (2009a). Upton (2009b) identifies three phases, roughly demarcated by their chronological content and degree of development, in the appeal to situationism in discussions of virtue ethics within analytic philosophy: (1) moral philosophers' linking situationism to virtue ethics, (2) the situationist critique of virtue ethics (this phase raises questions about whether there is a viable reconstrual of the situationist findings that would more powerfully sanction their conclusions; for example, are there any convincing reasons for virtue ethics to endorse local, rather than global traits of character, and does a thorough canvassing of further situationist and non-situationist psychological literature reveal any findings that bear on virtue ethics, and (3) the argumentative and conceptual focus shifting away from the nature of virtue and defending virtue ethics in response to issues raised in the second phase (perhaps it can be described as an attempt to reconcile dispositionalism and situationism). Upton (2009b) also notes that the bulk of the responses to the situationist critiques defends virtue ethics either directly or indirectly by arguing either that virtue ethics is more subtle and sophisticated than its critics assume or

that the situationist experiments are not structured to test for the presence of traditionally-conceived virtues.

Merritt (2009) points out that there are those who resist the intrusion of scientific psychology into moral theory for the following reasons: (1) the primary method of the former is controlled experimentation whose results are at best inductive generalisations; it cannot establish the impossibility of exceptions, (2) it is in keeping with the normative purposes of moral theory to exhort one toward an ideal that may only be realised in exceptional cases which leaves room for more rigorous inductive generalisations, and (3) since the purpose of moral theories is primarily normative, not predictive or explanatory, compatibility with scientific psychology is at most a constraint on moral theory. Merritt (2009) argues that the reason why moral philosophers should aim at compatibility with scientific psychology is specific to the purposes of normative theory which has to take into account the empirical understanding of what it applies. For example, Jost and Jost (2009) point out that it is not the first time that moral philosophers have been compelled to revise their conclusions based on scientific research which social actors bring about or perpetuate as in the case of the person-situation debate.

The general thesis of situationism²⁸ is that character must be understood as comprising personal dispositional traits that are highly situation-specific which lead people to act in distinctive and predictable ways. They argue that it is incorrect to interpret behavioural consistencies in terms of robust character traits (referred to as the *fundamental attribution error* or *correspondence bias*). In other words, much of our ordinary moral thinking commits the fundamental attribution error when one assumes that behavioural patterns are due to character traits rather than to situational factors. Further, there is a *confirmation bias* where one continues to have a strong tendency to continue to attribute character traits to the person in the face of disconfirming evidence. Even minor or seemingly irrelevant differences in the experimental or perceived conditions seem to make significant differences in how people behave. Situationists subscribe to a *fragmentation theory of character* (character traits are specified with reference to a range of situational features) as opposed to a *regulatory theory of character* (behaviour is regulated by long-term dispositions). Situationist social psychologists:

²⁸ Situationism as proposed by Fletcher (1966), while treating the rules and values of society seriously, violates these rules if human welfare is best served by doing so. Jost and Jost (2009) refer to situationism as understood in this paper as *eliminative situationism*.

(1) reject a globalist view of human nature (the idea that people possess robust character traits which enable them to withstand situational pressures and behave consistently across situations), (2) are of the view that character traits play less of a role in predicting and explaining behaviour than do particular situational features: the views or strong intuitions about character traits and development are either mistaken or do not exist, (3) propose a more empirically adequate conception of character structure which allows temporally-stable, situation-particular local character traits that reflect dispositional differences among people, (4) subscribe to the view that an individual's behaviour is determined by an array of 'local character traits', and (5) moral education should aim not at inculcating robust character traits, but rather about bringing about situations that foster virtuous behaviour.

In order to empirically support their views, situationists cite the following five broad categories of experiments (described in the next paragraphs): (1) *obedience to authority*, (2) *moods effect*, (3) *group effects* or *bystander studies*, (4) *Good Samaritan* or *hurry-factor* experiments, and (5) *honesty and deception*. Many of the experiments were motivated by real-world situations. For example, the 'Milgram' experiment (described below) saw this as an explanation of the apparently irrational obedience to authority shown by the Nazi soldiers during World War II. In Mao's China, millions of people obeyed orders to loot and kill innocent people, US soldiers obeyed orders to shoot and kill five hundred (500) unarmed women, children, and old men in the village of My Lai during the Vietnam War (Badhwar, 2009). The bystander studies were constructed to understand the brutal murder of Kitty Genovese in front of her two-storey Tudor building in a respectable New York City neighbourhood. She was fatally stabbed at 3:20am on March 13th, 1964. Her screams for help (after receiving several stab wounds) awakened thirty-eight (38) of her neighbours and initially frightened away her assailant, Winston Mosely. When none of her neighbours came to her aid, the assailant returned to finish the job.

The most famous of the situationist psychologists' experiments, conducted at Yale University during the period 1960-63, is summarised in Milgram (1974). In the experiment, an assistant asked each subject (selected from the University's student body) to administer 'electric shocks' to another assistant each time he or she made a mistake on a word-learning exercise. After each mistake, the subject was asked to administer a shock of increasing voltage which resulted in an 'apparent' increasing distress from the experimental assistant. It turned out that over sixty percent (60%) of the subjects shocked the experimental assistant through to

the highest voltage. The experimental finding is supposed to show that it is not character that causes one to inflict great pain on an innocent person, but rather the situation which is characterised by *obedience to authority*.

In another experiment in which randomly chosen subjects entered a phone booth and found either a dime secretly left in the change-slot by an experimental assistant or that the change-slot was empty. Just as each subject left the phone booth, an experimental assistant appeared beside the subject's path, dropping a manila folder full of papers. The results showed that whether or not the subject had found a dime (almost ninety percent (90%) of those who found a dime helped while four percent (4%) who did not find the dime did help) made a significant difference as to whether the subject helped to pick up the papers. The conclusion drawn was that the experimental conditions were that the major explanatory variables in determining those who helped and those who did not were situational (in this case, the mood effect), rather than any character traits or other personality variables (Isen & Levin, 1972).

Latane and Rodin's (1969) study found that when a subject was alone in a waiting room, seventy percent (70%) of those present offered to help a moaning and screaming experimental assistant who was in an adjoining room. When the subject was with another experimental assistant who shrugged off the victim's cries and did not offer to help, only seven percent (7%) of the subjects intervened (Latane & Darley, 1970). The presence or absence of others seems to have made an important contribution to the subjects' willingness to help the experimental assistant. Asch (1951) provides another set of experiments that demonstrate the group effect on behaviour and found that subjects were willing to make statements that appeared to be contradicted by the best evidence of their senses.

Darley and Baston (1973) describe an experiment in which seminary students were asked to prepare a short talk on either the *Good Samaritan* parable or possible occupations for seminary students, and to walk to another building to give a talk. On the way, the seminarians encountered an experimental assistant apparently in need of medical assistance. It turned out that the *degree of hurry* was apparently the single most important factor in helping or not helping. Specifically, the number of seminary students who stopped to help appeared to have depended greatly on whether they had been told that they needed to hurry in order to deliver their talk on time. The ratio to those who were not in a hurry and helped to those who were in a hurry and did not help was over one to six (1:6).

The Stanford prison experiment (probably the most renowned situational experiment outside Milgram's) was a study of the psychological effects (through the impact of situational variables on human behaviour) of becoming a prisoner or guard used to determine the causes of conflict between both groups. The experiment was conducted in 1971 by a team of researchers led by Stanford professor and a former classmate of Stanley Milgram, Philip Zimbardo (Haney et al., 1973). Twenty-four (24) volunteers were randomly assigned to either the *prisoners group* or the *guard group*. After six (6) days the experiment, originally scheduled for two (2) weeks, was abruptly stopped because many prisoners were subjected to torture with five (5) prisoners released because they were experiencing severe negative emotions: the guards began to behave in ways that they would not normally act because they were placed in a position of power, and the prisoners became passive and depressed because they were placed in a situation where they had no control (<http://en.wikipedia.org>, <http://psychology.about.com>). Finally, Harthstone and May (1928) studied eight thousand (8,000) school children who were tested for honesty across a wide range of situations (including willingness to lie to avoid getting another student in trouble and cheating on a test or stealing change on a table). They found that almost none of the subjects behaved consistently across situations on the basis of correlation measures and concluded that honesty was not an internal trait.

With respect to the interpretation of the experimental empirical evidence, Alzoa (2008) points out several methodological objections based on: ecological validity (the ability to mimic all the environmental and situational variables), reliability of results, extreme and novel experimental situations (also known as the *moral dilemma* objection), limitations of one-shot and cross-sectional studies, misleading inferences of individual behaviour from group behaviour, and misleading inferences of adult behaviour from children's behaviour. While these methodological objections have some merit, no methodology is perfect as many times simplifying assumptions, data limitations, representative samples, the limitations of attempting to consider human freedom in calculations, artificially-induced techniques, increased sample size to attain significant results, etc., are all considerations in conducting academic research. In any case, virtue ethicists may be missing the bigger picture and lessons to be learnt in incorporating or appreciating the influence of situational variables on human behaviour and ethical decision-making.

On the other hand, there have also been experimental findings that support the regulatory theory of character view that the traditional conception of character has greater explanatory and predictive power than its situationist's rival. For example, Baston (1998) notes that dispositional predictors have fared better than in earlier works. Costa and McCrae (1988) provide the strongest empirical case for the existence of stable character traits that exhibit cross-situational consistency and predict real-world behaviour. In their study, the authors used nine hundred and eighty-three (983) self-reports and one hundred and sixty-seven (167) spouse reports using a personality inventory instrument which attempts to measure five (5) major dimensions of normal personality. Cross-sectional and longitudinal analyses on data from men and women (aged 21-96) were performed and the data supported the position of the existence of stable character traits after age thirty (30). Hogan (2005) finds that the virtue of *conscientiousness* has significant moral implications and that this virtue predicts both leadership and occupational performance. Webber (2006) shows that latitudinal studies in which different subjects were tested in the same situation provide evidence of a deeper level of explanation that supports the regularity theory of character. It is important to note that even accounting for reliability and validity, such analyses do suffer from methodological limitations that include generalisation of results, representativeness of the sample, taking into account human freedom in self-evaluation reports, etc.

Overall findings show that the experiments reveal that: (1) situationists are perhaps dismissive of the role of character and personality traits in producing ethically-responsible behaviour and their thesis does not undermine an Aristotelian-Thomistic moral characterological psychology; among other things, the experiments convincingly show that compelling situations can often override the moral reasoning of ordinary people, (2) though trait attributions often go wrong, the fundamental attribution error (bias toward explanations in terms of personality traits rather than situational factors) cannot fully play the explanatory role required of it since local traits can be considered traits of character rather than behavioural dispositions and one tends to cite *uncommon* traits characteristic of the agent rather than more common dispositions (situationists (for example, Harman, 2009) are of the view that the evidence indicates that people may differ in certain relatively narrow traits but do not have broad and stable dispositions to the sorts of character and personality traits that people are supposed to have); in other words, most people have weak characters (this weakness is both cognitive and motivational) especially when confronted with powerful situational factors , (3)

claims about the nature of traits can be justified with reference to intuitions²⁹ grounded ultimately in one's accumulated experience of trying to explain and predict the behaviour of those around us; further, reliance on intuitions grounded in longitudinal acquaintance with a few individuals over significant periods is superior to the use of experimental psychology, (4) virtuous agents may not be as numerous as many people might believe (though one can infer from the experiments that between ten to forty percent (10%-40%) of people possess robust character traits), (5) situational factors enrich and deepen our understanding of human nature and behaviour, (6) situational factors reveal differences in the characters of their subjects, not that their subjects lack character altogether (they also asked larger questions as to the nature of that character), and (7) situationalism encourages a richer account of virtue ethics and notions of character traits. One can conclude that, rather than undermining the idea of character traits, situational social psychology can shed light on the manner in which character development can occur.

The empirical data tend to support an interactionist or synthetic model between situationalism and dispositionalism. Arjoon (2008) points to a number of studies that show evidence from organisational behaviour and managerial research literature appear to support the view that both situational (organisational) features and inner characteristics (including virtues) are powerful influences in determining moral conduct. The interactionist approach can help reveal the strategic fit between personal and organisational goals to yield greater job satisfaction and productivity, to understand how organisational culture can be aligned with promoting ethical behaviour, and to reinforce attitudes with behaviour. Jost and Jost (2009) point out that though moral philosophy has much to learn from psychology, the real lesson from empirical studies is not that character traits fail to exist, but behaviour is the product of a complex interaction between the person and the situation since moral credit and blame may be harder to assign than ethicists once imagined. There is perhaps a need for experimental type research in organisational settings to look at the interactionist model of behaviour.

Merritt (2009) recommends that in order to adequately address agents' psychological need for a systematic decision procedure, one ought to focus attention primarily on substantive

²⁹ Intuition here is to be understood as the intellectual virtue of understanding (the habitual awareness of fundamental and self-evident truths without the effort of discursive reasoning (Arjoon, 2010a)); this is based not only on experience of the demands of ordinarily daily situations, but on those experiences shared by all). For example, the psychologist, Frank Sulloway, claimed that birth order has a profound, permanent impact on personality: first-borns tend to be *conformists*, whereas later-borns tend to be *rebels*; this goes against common sense experience (Horgan, 2005).

ethical considerations (interpersonal psychological processes) rather than characterological assessment. For example, interpersonal processes that engage self-regulation and self-presentation can influence subsequent behaviour and encourage or confirm others' beliefs that one possesses dispositions of character that they consider desirable. Merritt (2009) gives an illustration on the studies which have found that couples in close-partner relationships 'sculpt' each other's dispositions, values, and behavioural tendencies through the expectations that each forms of the other. This has direct implication in fostering and promoting an ethically-charged organisational culture. Further, "empirical evidence suggests that the very interpersonal processes which ideally support ethical character also expose it to discontinuity and disruption in way that may be extremely difficult for the agent to detect" (Merritt, 2009, p. 37) which can lead the agent down a 'slippery slope'.

Harman (2009) puts forward the view that there are several versions of virtue ethics (some are concerned with character traits while others focus on actions) and that empirically-based scepticism about character traits is only relevant to some versions of virtue ethics. Specifically, one can have a virtue ethics with broad character traits as actual regularities to which situationism subscribes (as in the Humean conception of character traits as existing in particular social contexts), a virtue ethics without character traits (applied to acts), and a virtue ethics with robust character traits (there is an objective basis for a single set of human virtues of character). This last category can be classified into two divisions: a virtue ethics which focuses on particular virtues (as in ancient Greek philosophy which emphasises courage and generosity), and a virtue ethics which is more concerned with the general state of being virtuous (for example, an Aristotelian-Thomistic virtue ethics). Badhwar (2009) argues that virtues can only be domain-specific, entailing some general understanding of what matters in life, and are connected conceptually and causally to one's traits in other domains. Overall, the research findings seem to suggest that there is a failure on both situational psychologists and virtue ethicists to appreciate each other's understanding of character and situation: they seem to focus on the apparent differences and not engage in a constructive dialogue in reconciling their respective views. Arjoon (2008a) attempts reconciliation by promoting a normative extension in addressing the issue of inadequate regulative deals discussed next. There is also a need to promote experimental methodologies in organisational settings.

Aristotelian-Thomistic Natural Law/Virtue Ethics: Regulative Ideals

An Aristotelian-Thomistic natural law/virtue ethics framework provides the regulative ideals³⁰; virtue ethics (in particular, prudent decision-making) provide the means for striving toward those regulative ideals in order to promote a culture of trust and integrity. Grisez (1983) explicitly provides the regulative ideals which define the relationship between practical reason and basic human goods in inferring eight modes of responsibility from the first principles of natural law. The eight modes of responsibility derived from the first principles of natural law, along with their corresponding virtues and vices are: (1) *one should not be deterred by felt inertia from acting for intelligible goods* (virtues include industriousness and diligence; vices include sluggishness and slothfulness), (2) *one should not be pressed by enthusiasm or impatience to act individualistically for intelligible goods* (virtues include team-spirit and responsibility; vices include going it alone and over-commitment), (3) *one should not choose to satisfy an emotional desire except as part of one's pursuit or attainment of an intelligible good other than the satisfaction of desire itself* (virtues include self-control and discipline; vices include lust, greed, fanaticism, jealousy, and impetuosity), (4) *one should not choose to act out of an emotional aversion except as part of one's avoidance of some intelligible evil other than an inner tension experienced in enduring that aversion* (virtues include courage and perseverance; vices include irresolution and squeamishness), (5) *one should not, in response to different feelings toward different persons, willingly proceed with a preference for anyone unless intelligible goods themselves require the preference* (virtues include fairness and disinterestedness; vices include favouritism, selfishness, and prejudice), (6) *one should not choose on the basis of emotions which bear upon empirical aspects of intelligible good (or bad) and which interfere with a more perfect sharing in the good or the avoidance of the bad* (virtues include sincerity and clear-headedness; vices include superficiality, frivolity, and childishness), (7) *one should not be moved by hostility to freely accept or choose the destruction, damaging or impeding of any intelligible human good* (virtues include patience and forgiveness; vices include vengeance and resentment), and (8) *one should not be moved by a stronger desire for one instance of an intelligible good to act for it by choosing to destroy, damage or impede some other instance of an intelligible good* (virtues include reverence and respect; vices include craftiness and expediency). Intelligible human goods are desirable in and of themselves and lead to human flourishing (integral

³⁰ Oakley and Cocking (2006) define a regulative ideal as an internalised normative disposition to direct one's actions and alter one's motivation in certain ways. It has a central role in practice, guiding one's thoughts and actions; it may be specific to certain domains or general in scope.

human fulfilment) which is the aim of the ethics of the good. The development of a virtuous character is directed toward a *telos* (goal) of *eudaimonia* (human flourishing).

A major concern is that if regulative ideals of virtue are so lofty and can be realised only rarely at best (as in the case of the virtuous agent), then how can they be relevant to practical morality? However, even if the goals are not attainable, one might still strive towards them as aspirational goals to continuously improve ethical character and behaviour. Virtue of character ought to yield a positive rule of action and a negative rule for every character defect or vice. In other words, what the virtuous person would do requires the regulative ideal provided by an Aristotelian-Thomistic framework. Merritt (2009) posits that “a moral theory might tailor its psychology of virtue to normative purposes by articulating an ideal of practical rationality and knowledge of the good, while recognising that the ideal is rarely attained, and may well be unattainable by the vast majority of men and women” (p. 26). In the Aristotelian-Thomistic account, human nature is fulfilled when one does what is good and right.

CHAPTER 6

Corporate Governance and Ethical Decision-Making

Effective corporate governance was originally designed to protect investors and promote market integrity for business success, for encouraging long-term economic growth, to foster public confidence through developing trust and integrity, and to control and distribute power. The scope and complexity of corporate governance mechanisms have been steadily increasing over the past decade and include issues such as risk management, the role of government including its role in dealing with systemic risk, executive compensation, proposals to improve the professionalism and diligence of boards and board committees, shareholders' activism including shareholder proxy access and broker discretionary votes, disclosures, short-termism, the role of fund managers, etc. An Aristotelian-Thomistic approach to corporate governance and decision-making incorporates a wider view than the more narrowly-defined shareholder view in restoring confidence in the fairness and integrity of markets, in particular, the former views business as an integral part of social life and that organisations exist to allow one to live a complete and good life. In addition to the issues identified above, an Aristotelian-Thomistic approach to corporate governance and ethical decision-making includes: fostering professional and ethical behaviour at all levels, developing a culture that draws the best out of people and so promote their development, corporate social responsibility and sustainability, the common good, stakeholders' interest reflected in decisions that take into account different stakeholders, decision rights, and as a directing action it seeks to achieve the goods that concretely shape the organisations (Arjoon, 2000, Wijnberg, 2000, Arjoon, 2005a; Pezoa & Calvo, 2006).

This chapter shows that recent corporate governance arrangements have tended to promote an inherently situationists view of ethics and ethical decision-making. Situationists advocate that ethical reasoning and decision-making ought to focus on the specificities of the concrete situation so that ethical judgments are a matter of assessing situations in order to identify their salient ethical features. In particular, Pezoa and Calvo (2006) note that from an Aristotelian point of view, corporate governance is characterised by three (3) inter-dependent dimensions: virtue, good, and law (for example, virtue is not sufficient to achieve the perfection of human nature without the good that determines the purpose of virtue and configure the organisation, and which are guided and supported by law). In other words, in the Aristotelian-Thomistic sense, corporate governance has as its ultimate goal the moral improvement of individuals, the firm and its stakeholders. In order to address the efficacy of

corporate governance arrangements, it is important to investigate the causes of failure (discussed below) especially with respect to the global financial crisis (2008).

Analysis of Causes of Failure

Failures of corporate governance systems can be understood or applied at three (3) different levels: (1) *rotten apple* (this occurs when the individual succumbs to the temptations inherent in the workplace), (2) *rotten barrel* (this describes the work environment and organisational culture which provide opportunities for deviant behaviour), and (3) *rotten core* (this relates to the ethicality of the socio-economic-political or ideological system of governance). Table 2 shows the relationship of the research publications with the different causes.

Table 2
Relationship of Publications with Causes

	Rotten Apple	Rotten Barrel	Rotten Core
2000	X	X	X
2005a			X
2005b	X	X	X
2006		X	
2007	X	X	X
2008a	X		
2008b	X	X	
2010a	X		

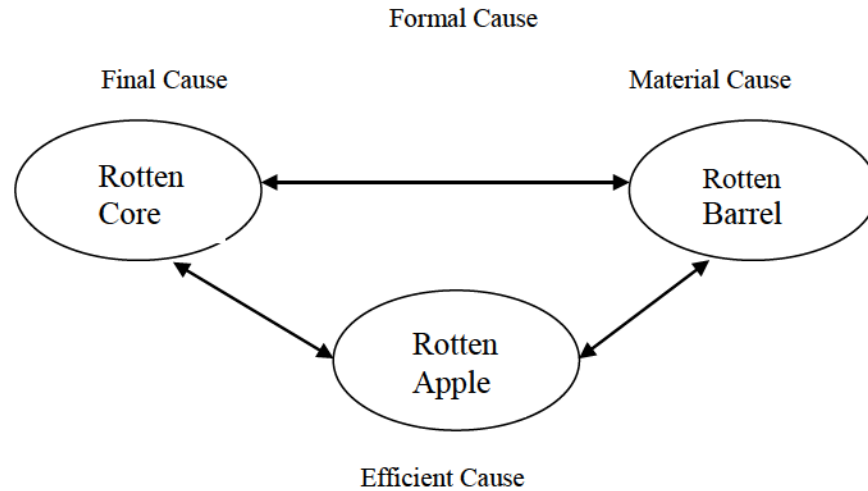
Arjoon (2000) deals with all three causes through the virtues as core competencies (an antidote to the rotten apple), the common good as the mission of business (an antidote to the rotten barrel), and the dynamic economy with its ideological basis (an antidote to the rotten core). Arjoon (2005a) addresses the issue of the rotten core by proposing a political-philosophical ideology of a moral capitalism which retains the free market concept but which is regulated by ethical principles and values. Arjoon (2005b) addresses all three causes through the application of the concepts of the freedom of indifference and the freedom for excellence. Arjoon (2006) examines the rotten barrel cause by examining the organisational culture. Arjoon (2007) identifies three (3) sources of morality which apply to the three causes: the moral objectives provides an objective basis to address the rotten core, the personal or subjective intention deals directly with the rotten apple, and the circumstances relate to the

rotten barrel. The situational features (rotten barrel) relate to ethical decision-making at the level of the individual (rotten apple) as discussed in Arjoon (2008a). Arjoon (2008b) explicitly identifies rationalisations for the rotten apple and rotten barrel arguments. Finally, Arjoon (2010a) deals with inner characteristics (virtues, emotions, senses, etc.) that relate directly to the rotten apple argument.

In analysing causes, de Torre (2005) identifies three (3) levels of penetration (*physical*, *mathematical*, and *metaphysical*) in discussing how the mind can know or grasp the reality of the physical universe. The first level of understanding (physical) seeks the essentials in things by abstraction from which concepts are formed in which one grasps what is essentially material and changeable, and through observation tries to find if some universal statement could be inferred (*concepts*). The second level (mathematical) applies measurement or quantification to the observation. The third level (metaphysical) occurs when one penetrates into the understanding of the *ens* (being) and the *esse* (to be). From a metaphysical perspective, Aristotle's four (4) explanatory principles or causes which account for the being or becoming of anything that comes to be, are helpful in understanding the root or immediate causes of corporate governance failure and symptomatic, secondary or remote causes: (1) *material cause* (the material or matter of which a thing or being is made), (2) *formal cause* (the form, plan or blueprint which identifies how the material or information is put together), (3) *efficient cause* (those who are immediately responsible for bringing the matter and form together), and (4) *final cause* (the purpose or *telos* for which the thing exists).

In analysing the causes of failure of corporate governance, the material cause corresponds to the lack of effective regulations, codes, etc.; the formal cause corresponds to the unrealistic pricing of contagion risk of complex financial instruments – subprime mortgages, credit default swaps, mortgage-backed securities, collateralised debt obligations, etc.; the efficient cause is the economic agent or decision-maker; and the final cause corresponds to the goal of the unrealistic and unsustainable rate of return on investment. The rotten barrel and rotten core arguments provide the material (corporate and country governance mechanisms), formal (financial models) and final (goal of profit or shareholder wealth-maximisation under the neo-liberal capitalist ideology) causes; the rotten apple argument provides the efficient cause (board members and senior executives in particular) which brings about the other causes (Figure 3).

Figure 3
Analysis of Causes of Failure



Some have argued that the global financial crisis was caused, in part, by the *Narcissistic Personality Disorder* (NPD) of many corporate leaders and senior executives who substituted robust risk management for personal gains (Bones, 2009; Broughton, 2009; George, 2009; Hassett, 2009). Twenge et al. (2009), drawing on extensive empirical research and cultural analysis, also share this view that the financial crisis was partly of the consequence of a narcissistic cultural epidemic. Characteristics of NPD include: an extravagant sense of self-importance and superiority, an unreasonable sense of entitlement, self-centred and self-referent behaviour, exaggeration of talents, boastful and pretentious behaviour, grandiose fantasies of unlimited success, the belief that one is so special that one can only be understood by equals, a yearning for attention and admiration, a willingness to exploit others, lack of empathy, envy and the belief that others envy them, and arrogant behaviour (Ronningstam & Gunderson, 1990; Cohen, 2005). There have also been increasing research interests in NPD in business and organisational behaviour that focus on leadership (Maccoby, 2004; Hambrick 2007; King 2007; Blair et al. 2008; Higgs, 2009). Duchon and Drake (2009) observe that narcissistic organisational cultures are excessively egocentric and exploitive as they obsessively employ a sense of entitlement, self-aggrandisement, denial, and rationalisations to justify their behaviour in order to protect the collective identity.

Barr (2011) identifies that the global financial crisis was rooted in years of unconstrained excess and prolonged complacency in major financial centres, in particular, the over-reliance on short-term financing, opaque markets and excessive risk-taking. The U.S. regulatory structure (which one can argue provided a careful balance between incentives for innovation/competition and protections from excessive risk-taking/abuse) was eventually eroded with the developments of new products and markets for which those protections had not been designed, specifically: the growth of the *shadow banking* system permitted financial institutions to engage in maturity transformation with little real transparency, sufficient capital or meaningful oversight; significant growth of large, short-funded, and substantially interconnected financial firms; huge amounts of risks moved outside the more regulated parts of the banking system to where it was easier to increase leverage, legal loopholes and regulatory gaps allowed large parts of the financial industry to operate without oversight, transparency or restraint; derivatives were traded with insufficient capital to back the trades; *repo* markets became riskier as collateral shifted from Treasuries to poorer quality asset-backed securities; the lack of transparency in securitisation hid the growing wedge in incentives and synthetic products multiplied risks in the securitisation system; rapid growth in key markets hid misaligned incentives and underlying risk; financial innovation often outpaced the capacity of managers, regulators and markets to understand new risks; short-term rewards in new financial products and rapidly growing markets overwhelmed or blinded private sector gatekeepers; consumer and investor protections were weakened and households took on risks that they often did not fully understand and could ill-afford; rising home and other asset prices had helped to feed the financial system's rapid growth, and hid underwriting standards and other underlying problems in the origination and securitisation of mortgage loans; when home prices began to flatten, the asset implosion in housing led to cascades throughout the financial system, and then to contagion from weaker firms to stronger ones; failure in the shadow banking system fed failures in the more regulated parts of the banking system and as a result credit markets froze in the fall of 2008 (Barr, 2011).

The crisis in the subprime markets and associated liquidity squeeze resulted in: Bear Stearns being taken over by JPMorgan (with the support of the Federal Reserve Bank of New York), financial institutions (Citibank, Merrill Lynch, Bank of America in the U.S., and UBS, Credit Suisse, RBS, HBOS, Barclays, Fortis in Europe) were continuing to raise a significant volume of addition capital to finance major realised losses on assets, Freddie Mac and Fanny Mae had to be taken into government conservatorship, there had been a run on Northern Rock

in the UK (the bank was eventually nationalised) and IndyMac Bancorp and others in the U.S. were taken over by the deposit insurance; IKB and Sachsenbank (State banks in Germany) had to be rescued, the crisis intensified in the third quarter of 2008 with a number of collapses (notably, Lehman Brothers) both in the U.S. and the UK (Kirkpatrick, 2010). Specific issues that arose include the material conflicts of interest between banks (in their capacity as underwriters) and investors in offering of asset-backed securities (for example, in the case of the conduct of Goldman Sachs in several transactions including the use of collateralised debt obligation (Tuch, 2011)), short-termism (especially in the case of the housing market), and too big to fail (the SEC was castigated for: (1) its attempted settlement charges of \$33m that Bank of America failed to disclose key information to investors in connection with its acquisition of Merrill Lynch in a secret agreement which allowed Merrill to pay its executives billions of dollars in bonuses prior to the close of the merger regardless of its financial condition, (2) its \$75m settlement of its charges that Citigroup concealed \$40b of subprime exposure from investors, and (3) for failing to tack frauds claims onto its \$550m settlement with Goldman Sachs (Johnson, 2011)). According to a U.S. Congressional Report (April 2011), Moody's Corp and Standard and Poor's continued to give top ratings to mortgage-backed securities months after the housing market collapse and then unleashed of flood of downgrades on the financial system in July 2007; the report further commented that the sudden mass downgrades of residential mortgage-backed securities and collateralised debt obligation ratings were the immediate trigger of the financial crisis (www.business-standard.com).

Table 3 presents the various probable causes described above into the three (3) respective categories for analysis of causes of failure based on the rotten apple, rotten barrel and rotten core arguments. Table 4 presents the proposed solutions into these categories. What is striking in comparing the two (2) tables is that the proposed solutions associated with the rotten apple argument has been ignored or overlooked. This has serious implications for the recurrence of financial failures that we have continued to witness from recent experiences.

Table 3
Analysis of Causes of Failure: Categories

Rotten Apple

- Alliances between financial and political elites
- Failure of boards and senior management to establish, measure and adhere to acceptable risk levels
- Unrealistic assessment of liquidity risks of concentrated positions
- Narcissistic (philosopher-king) mentality of CEOs in which it appears that executive power is accountable to no one
- Those who pursued the model of quick and easy gains in opposition to the fundamental ethical principles and values
- Lack of virtue and moral failure in the leadership of corporate executives who have lost touch with reality (this includes personal and corporate greed)
- Financial incontinence and imprudence of all stakeholders especially imprudent risk taking by financial sector leaders
- Lax enforcement of existing regulations
- Violation of fiduciary duties
- Alliances between financial and political elites
- Personal decisions related to corporate strategies and business policies (strong incentives associated with short-term profits, mortgage-backed securities, etc.)
- Borrowers being instrumentalised
- Credit rating agents were too permissive
- Credit risk management was over-sighted
- Complexity was not mastered
- Abuse of power
- Inordinate passions including fear, courage, prudence, humility

Rotten Barrel

- Errors by nationally recognized statistical rating organizations
- Classified boards of directors (directors served staggered terms, typically for three years with one-third of the directors elected each year)
- Compensation programs that conflicted with corporate objectives
- Lack of board oversight of corporate risk management with the consequent development of unacceptable risk policies
- Board of directors' limited access to and lack of understanding of relevant risk exposure information
- Irresponsible corporate pay packages that were not aligned with corporate strategy and encouraged unnecessary risk-taking
- Insufficient and unsatisfactory accounting standards and regulatory requirements which failed to safeguard excessive risk-taking
- Inadequate or lax corporate governance arrangements
- Failure to adapt existing regulatory framework
- Static regulations that lag financial innovations
- Omnipotent management and impotent shareholders
- Inability of corporations to govern themselves

Rotten Core

- The pressure for short-term performance profits
- The exploitation of regulatory gaps that existed between banks and non-banks shadow financial system
- Inadequate and fragmented technological infrastructures that hindered risk identification and measurement
- Subprime loans and credit default swaps
- Business models that depended too heavily on uninterrupted access to secured financing markets
- Inability to anticipate dramatic reductions in the availability of secured funding
- The growth and complexity of sophisticated financial instruments which outstrip economic and social utility, as well as the capacity to manage them
- Institutional arrangements that conferred status and influence on risk-takers at the expense of independent risks managers and control personnel
- Too big to fail
- Failure of the liberal capitalist system

Table 3

Analysis of Causes of Failure: Categories (cont'd)

Rotten Core (Cont'd)

- An overall deterioration of moral standards in business and society
- The shift of financial activities from regulated and transparent institutions into the shadow market or shadow economy (intermediaries were not well-regulated) and failure of the regulatory authorities to respond in a timely manner
- Errors in fiscal (large budgets deficits) and monetary policies (especially as related to interest-rate management)
- Weakness in funds transfer pricing practices for illiquid or significantly concentrated assets
- Deregulation of certain sectors which encouraged riskier activities
- Housing bubbles
- Real estate pricing

Table 4

Analysis of Causes of Failure: Proposed Solutions

Rotten Apple

Rotten Barrel

- Facilitating shareholder director nominations
- Proxy enhancements and risk disclosures
- Elimination of broker voting in uncontested director elections, rating disclosures
- Prohibition on pay-to-play practices which includes an adviser's direct or indirect solicitation of third parties contribution
- The proposed Consumer Financial Protection Agency Act to police consumer financial products
- A more assertive style of supervision at the firm level
- The Financial Services Oversight Council (to address issues such as regulations, arbitrage through the closing of regulatory groups, and the application of appropriate supervisory standards to currently unregulated non-bank financial companies)
- Re-working compensation practices to disincentives excessive risk-taking
- Improving coordination and cooperation among regulatory agencies through robust sharing of information
- Aggressive enforcement of the Sarbanes-Oxley "claw-back" provision
- Say-on-Pay legislation
- Elimination of classified boards
- Enhanced disclosures of corporate leadership structure (board composition, directors' skills and experience, etc.)
- Mandatory board-level risk committee
- Enhanced disclosures on risk management
- Enhanced proxy disclosure related to implications of compensation for risk-taking incentives
-

Rotten Core

- Ban on the practice of flashing marketable orders (flash orders are used to send investors buy-orders price at best offer which can produce inequities in the markets and create disincentives to display quotes)
- The new International Financial Stability Board (which requires the global banking system to be more prudent through imposing longer shock absorbing buffers of capital and liquidity)
- A higher capital requirement against riskier funding activities
- The need for macro-prudential regulation to address systemic risk

Corporate Governance and Ethical Decision-Making

While effective corporate governance regulations and oversight are necessary for the proper functioning of capital markets, without virtue, even the best laws and regulations can easily be abused or manipulated (Wegemer, 1998). Some have argued that institutional arrangements are adequate in effectively addressing inadequacies in the market including individual behaviour. For example, Hobbes is of the view that institutional arrangement (social rules and contracts) can coerce behaviour while Marx would view such arrangements (economic structure and history) as the determinant of social relations and behaviour accomplished through the struggle between the working class and the social order of the bourgeois society. However, Aristotelian-Thomism argues that institutional arrangements can never be a substitute for personal virtue for safeguarding the common good. Laws and regulations could never be sufficient to ensure justice; they require the virtuous agent to transmit the spirit of the law³¹. Hall (1990) notes that the law serves to enforce a minimal obedience from the vicious; when real virtue is achieved, the law becomes obsolete or unnecessary. To govern others justly, one must first govern oneself. This is the urgent and difficult task that is the essential goal of education in the virtues which requires the development of knowledge of what is true and right (the role of the intellectual virtues) and to use one's freedom in the pursuit of the good (the role of the moral virtues). Ethical transgressions can be traced to the separation of truth from freedom as reflected in the disordered relationship between intellect and will; this represents the human ecological phenomenon of *toxic pollution of the human spirit* or *spiritual toxicity*. If this is not urgently addressed, there will more likely be other financial crises: regulatory and structural reforms require a laborious struggle to acquire knowledge of the good and virtue (at least by those who govern). In defining an ethical organisational system, it first requires *good human beings* (ethical behaviour) who promote *good governance* (ethical culture) which in turn reinforces *good human beings*.

Ideally, according to Hutton (2006), it is the virtuous agents who would establish the social structures and culture: "if there are people who do have robust character traits and are

³¹ This is to be understood as to be what is intended by the law which includes not only external action but also internal dispositions and attitude in promoting the common good. Arjoon (2005b) points out that legal compliance mechanisms tend to promote a rules-based approach which corresponds to the letter of the law which may not necessarily inspire or instil excellence, whereas ethical compliance mechanisms promote a principles-based approach which corresponds to the spirit of the law and inspires an ethics of happiness and virtue.

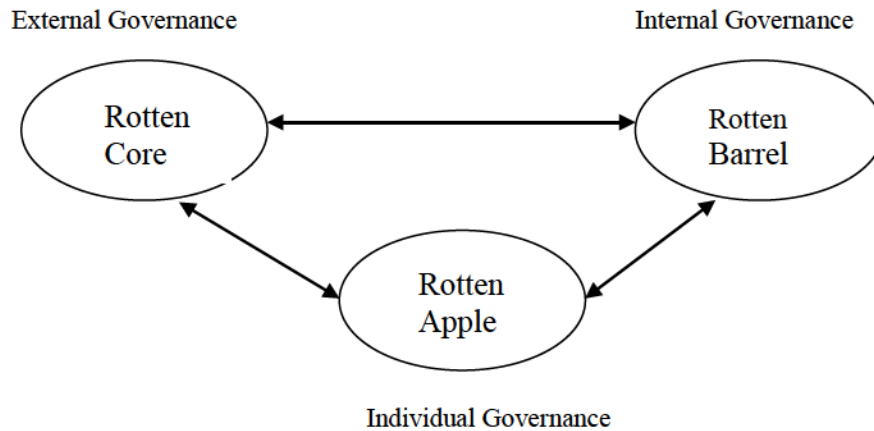
resistant to situational variation, they can design and reliably maintain the broad range of institutions and situations that facilitate good behaviour for everyone else” (p. 50). Of course, it is better that all agents aspire to virtue whether or not they hold leadership positions. Merrit (2009) advises that those who do hold such positions could be given to understand that their institutional roles carry an extra burden of responsibility to strive for virtue, commensurate with the importance of their influence on situational settings that guide the behaviour of others who are subject to their authority³². However, if virtuous agents are so rare (as pointed out by virtue ethics-situation debate) and are also prone to be influenced by morally arbitrary factors, then the governance structure ought not to be left to personal resolve. These views are consistent with the research findings that the *tone at the top* is critical in transmitting the importance of a strong ethical organisational culture that promotes an effective corporate governance culture of trust, integrity and honesty (Arjoon, 2006). It is therefore important to recognise that those whose business it is to govern aspire toward becoming virtuous, and that mechanisms be put in place to facilitate this process of choosing and developing such agents who have the requisite dispositions.

The framework for analysing the causes of failure can also be understood as different levels of corporate governance³³ (Figure 4): *external governance* (this deals with the rotten core aspects and addresses the issues that financial institutions face in the marketplace), *internal governance* (this deals with the rotten barrel aspects and addresses responsibilities and accountability of the firm), and *individual governance* (this deals with the rotten apple aspects and ensures that individuals are able to fulfil the obligations of both internal and external governance). The results presented in Tables 3 & 4 suggest that recent corporate governance initiatives have focused on both external and internal governance and that the debate on corporate governance arrangements has overlooked or ignored governance at the individual level (especially with respect to ethical decision-making and the development of the virtues).

³² This notion is well captured with the Latin saying: *corruptio optima pessima* (the corruption of the best is the worst of all).

³³ This three-part system of governance was identified by Nierderkohl & Ikeda (2005).

Figure 4
Corporate Governance Arrangements



Individual governance involves the psychological process of decision-making which reflects the interplay between intellect and will, and is divided into twelve (12) steps (Cessario, 2001, Arjoon 2010b): (1) *apprehension* (the intellect recognises that a given object, not yet possessed, is good for the decision-maker), (2) *wish* (the apprehension becomes a wish if the will views the object as good for the agent), (3) *judgment* or *synderesis* (the intellect uses the first principles of practical reasoning to arrive at a general judgment that the given object is good for the decision-maker), (4) *intention* (the will responds with a desire to possess the object and causes the intellect to seek the means needed to make the possession of the object come about), (5) *deliberation* (the intellect seeks to know the means that are necessary to obtain the object and presents the various means that will lead to its possession), (6) *consent* (the will gives its acceptance to the use of the various means), (7) *decision* (the intellect judges which one of the means will be best in the given circumstances and presents it to the will), (8) *choice* (the will gives its consent to the use of the particular mean chosen), (9) *command* (the intellect lists the various activities and operations that are involved in attaining the object chosen), (10) *application* (the will directs other powers to implement the steps toward obtaining the intellectually-chosen object), (11) *performance* (the intellect and the other powers respond to the command of the will), and (12) *completion* (the will takes pleasure in possession of the good). Goodness is found in the action chosen through identifying the moral

object, the intention and the circumstances which comprise the sources of morality (this constitutes the *Triple-Font Theory of Morality* as discussed in Arjoon (2007)). Virtue perfects the human capacities involved in ethical decision-making (that is, the powers of understanding and responding to intelligible goods and, of choosing and carrying out one's choices well) – a perfection which involves bringing those powers of intellect, will, and emotions into cooperative harmony with each other and with the human goods (Finnis, 1998, p. 107/108). Arjoon (2010b) points out that a decision made relying only using the intellect lacks compassion and empathy, one that relies only on the will may be executed without principles, and one that relies only on emotions may be unreasonable and imprudent for it may leave one vulnerable and at the mercy of the environment or of the shrewd person who can manipulate the situation to his or her selfish advantage without consideration of the other person.

CHAPTER 7

Research Findings

The following succinctly presents responses to the research questions based on the eight (8) journal articles submitted for examination:

(1) What is the essence of human nature? Is it purely materialistic or does it include a spiritualistic aspect? Are human beings free? Is human nature good or bad?

One's view of human nature is critical since every academic endeavour rests ultimately on what particular view one adopts. This has direct implications for management practice and corporate policy with respect to the goal and nature of business, guiding principles and moral responsibility, rationality and market focus, the role of virtues, goods to be pursued, the view of work, and determinants of moral behaviour. An Aristotelian-Thomistic account embraces a unitary understanding of human nature according to which embodiment is intrinsic to personhood: the body and its inclinations are an expression of the spiritual powers. Spiritual powers comprise the intellect (the power with its object to know the being of what things are (reality) that allows one to understand the order of things through its power of discrimination) and the will (the power to choose among rational alternatives of what is intellectually-grasped as good or desirable). The intellect and will are described as spiritual powers in the sense that they are both independent of material conditions.

Human nature is characterised by yearnings for self-preservation, preservation of the species through sexual union, knowledge of the truth and the good, and living in community. The inclinations to do wrong (*formes peccati*) are not part of one's nature, but rather stems from a defect or imperfection³⁴ in human nature. These inclinations are fuelled by a disordered or inordinate self-love that is unavoidable because of this defect of human nature so that the struggle to develop and perfect one's nature through virtuous actions is a long-life and continuous one. Because of the imperfection of human nature (reason has been darkened and the will has been weakened), one's judgments are often clouded by ignorance and deception resulting in the tendency to confuse *apparent goods* (fragile and fleeting goods especially those that appeal to the sense appetite) with *true goods* (goods and their corresponding pleasures which promote one's happiness).

³⁴ According to Egan (2009), the mirror (human nature) has been cracked but still serviceable as opposed to it being smashed (totally corrupted). Felice (2001) refers to this defect or fallibility in human nature as *social antiperfectionism* which reflects the view that human beings are characterised by a common human nature that gives them the capacity to do good but also the potential for moral transgressions.

A virtuous life entails perfecting *human nature as it is* (characterised by its susceptibility or proneness to error) and pursuing *human nature as it ought to be* (characterised by its natural inclination toward the acquisition of truth and goodness); such a life is based on the knowledge of what is true (promoted by the intellectual virtues) and good (promoted by the moral virtues) which harmoniously regulate one's emotional life. Human nature then is perfected through the virtues in using one's freedom (that is, the capacity to choose the appropriate means to achieve one's end of human perfection in the pursuit of happiness) to pursue what is good and true as revealed in the natural law. The 'choice' of evil consists not in wanting a certain good, but in wanting it in a disorderly way (disorderly because the order of means to an end is disrupted). Therefore, the choice to do wrong is an abuse of freedom (this reflects the imperfection of freedom whose perfection lies in pursuing the good) and makes one less free.

(2) What ought to be the ultimate goal of the firm? Can profit-driven strategies be reconciled with ethically-driven strategies (including issues such as corporate social responsibility and leadership)?

The Aristotelian-Thomistic view argues that business provides means by which one can satisfy one's needs and achieve one's fulfilment. Ultimately, the firm exists to provide an environment that would allow and encourage people to realise their goals which at the same time promotes the common good (which also includes the instrumental goals of the firm). This is to be understood in the proposed theory of business that is based on the relationship among the business environment (dynamic economy), business mission (common good), and core competencies (virtues) which shape firm's behaviour and dictate its decision-making criteria. The virtues and the common good share the underlying assumption that people are social by nature and cannot be understood apart from the larger community in which they operate. It is through the virtues that one is able to develop and direct one's effort toward realising the common good: one develops one's potentials in an environment that would provide such opportunities (that is, by promoting the common good) by means of the rational control of one's desires and passions (through the virtues). In other words, the acquisition of virtues help to make one a good member of society (which promotes the common good) and the common good provides the opportunities for the individual to grow in virtues.

MacIntyre's (1984) distinction between internal goods (characterised by goods that are unique, intangible, unlimited in supply, and have unique intrinsic value, for example, the virtues) and external goods (characterised by goods that when achieved are always some individual's property, for example, profits) provides a basis for reconciling ethically-driven strategies (that is, the pursuit of internal goods which contributes to a state of being) with profit-driven strategies (that is, the pursuit of external goods which contributes to a state of having): the former better facilitates the latter in realising the goals. Such a view of business makes the normative case of *how business should be is how people should be* (the development of virtues serve larger social purposes and emphasises individual and collective responsibilities which provides a basis for corporate social responsibility as a value-creating activity, Wang (2011)), creates conditions for stakeholders' participation, provides a unified set of guidelines for both the individual and the firm in recognising the relevance of ethics and promoting ethical behaviour, serves as a platform for leadership with a focus on the common good, and promotes the well-being of both the employee and the firm. The principal aim of business then does not merely consists of mere profit-maximising, but it ought to be directed to the service of people in their totality, taking into account their material needs and the requirements of their intellectual, moral, spiritual and religious lives. Providing an environment for employees to achieve their own goals as well as that of the firms results in the ultimate sustainable competitive advantage because such a practice is unique and unlimited in scope and so difficult to imitate or copy.

(3) How can situational social psychology be reconciled with virtue ethics? How can one be truly virtuous in a world characterised by the allurements of powerful situational forces and ideologies?

Situationists propose a fragmentation theory of character in which each person has a whole range of dispositions each of which has a restricted situational application, while virtue ethicists' view subscribes to a regulatory theory of character in which behaviour is regulated by long-term dispositions. Based primarily on experimental evidence, the former rejects the idea that people possess robust character traits that can enable them to withstand situational pressures and behave consistently across situations (*globalism*), is of the view that character traits play less of a role in predicting and explaining behaviour than do particular situational features, proposes a more empirically adequate conception of character structure temporally-stable situation particular local character traits, and subscribes to the view that an individual's behaviour is determined by an array of local character traits. It appears that virtue ethicists

generally fail to appreciate the powerful influence of situational factors on behaviour (for example, obedience to authority, moods effect, group effects, pressure, etc.). The Aristotelian-Thomistic view recognises the importance of situational influences on ethical behaviour and decision-making as a source of morality, though it argues that such influences are not its primary determinant. In any case, virtues cannot be properly understood without the context situational factors (for example, an action is right if and only if it is what a virtuous agent would do in the concrete situation, virtuous agents take into account morally-significant aspects of the concrete situation, and virtues develop effectively in responding to adverse situations and circumstances). There is some experimental evidence that illustrate the existence of stable character traits across different situations. The review of the literature on the virtue ethics-situationist debate reveals that: situationists take a narrower view of the structure of character traits and of the determinants of morality than virtue ethicists (situational factors reveal differences in the character traits of people, not that they lack character altogether, most people have weak characters (see response to research question #5 below), and experimental results enriches the understanding of human nature and ethical behaviour. The observation that many people can be induced to ignore moral standards of behaviour (with relative ease) by situational influences points to their stage in character development.

In recognising that both character structure and situational factors are important considerations in addressing ethical behaviour, an Aristotelian-Thomistic moral theory attempts to reconcile the virtue ethics-situation debate by promoting a strategy of self-regulation which overcomes the problems associated with inter-goal conflict (the challenge of doing the right thing especially in the context of powerful situational factors) and goal imprecision (the challenge to make the right decision among difficult decision alternatives). It provides a framework that promotes the normative extension in addressing the issue of inadequate regulative ideals by incorporating practical judgment (see response to research question #7 below) on reminding one of the importance of doing the right thing especially in morally-challenging situations (this avoids inter-goal conflicts in promoting an ethics of the good that identifies the relevant moral requirements for ethical conduct) and derives a set of strategic rules for ethical decision-making (this avoids goal imprecision in promoting the ethics of the good which provides the agent with the knowledge of moral objectives and a general set of strategic guidelines that informs one's intentions for upright behaviour).

(4) How can agent-based ethics (in particular, virtue ethics) be integrated with act-oriented or principles-based ethics?

There have been recent attempts to integrate or reconcile rules-based ethics (what is the right thing to do) with agent-based ethics (what kind of person ought I to become in order to consistently do the right thing) as both approaches help in understanding a more comprehensive nature of ethical behaviour. Specifically, it expands the understanding of ethical analyses in resolving specific problems by incorporating character traits when dealing with responsibilities and consequences. An Aristotelian-Thomistic ethics of the good represents such an attempt to infuse agent-based ethics (the virtues) with a principles-based ethics (natural law principles): the latter provides the cognitive foundation for the morally-significant knowledge achieved connaturally in a virtuous life (that is, it is through the natural law that one is educated in the virtues, and it is through the virtues that the natural law is rendered more efficacious). The role of practical judgment is instrumental in accomplishing such an infusion (see response to research question #7 below).

(5) Why is it that so many well-respected corporate leaders and top executives (rational beings) cross moral boundaries with or without fear of disastrous consequences for their (irrational) actions, especially when the right thing to do seems readily apparent? In other words, why does so much folly and unreason exist?

Research findings from virtue ethics and situational social psychology reveal that most people have weak characters (both cognitive and motivational as reflected through an underdeveloped moral freedom as a result of a weakened will and an uninformed intellect) and so are likely to be defined by factors such as the business environment, organisational culture, situations and circumstances, opinions and ideologies through their influence especially on those with weak character dispositions; in short, by the interaction of the rotten apple, barrel and core factors). Aristotle gives an account of an understanding of weak and strong characters in distinguishing among four (4) character dispositions (Arjoon, 2008a): (1) *virtuous* (one who does not succumb to the temptations provoked by situational factors that result in unethical conduct; the truly virtuous agent, not only does not suffer from the conflict between reason and emotions (emotions are guided by reason), but takes delight in refraining from unethical behaviour and performing ethical acts), (2) *enkritic* (one who experiences feelings that are contrary to reason but acts in accordance with it; one experiences interior

conflict and still performs the ethical act) (3) *akratic*³⁵ (one who experiences feelings that are contrary to reason and succumbs to them rather than guided by reason; one experiences interior conflict and performs the unethical act), and (4) *vicious* (one who readily succumbs to the temptations provoked by situational factors; the truly vicious person does not suffer from the interior conflict between reason and feelings, but behaviour is influenced by situational forces and not dictated by reason).

It appears that powerful factors can shape (especially if one possesses weak character dispositions) one's moral and intellectual outlook which result in a *Continuum of Compromise* (the slippery slope phenomenon). Consequently, one develops moral slippages and blind spots: one may not be able to recognise ethical issues and moral dilemmas, determine what the right thing to do is, nor have the courage to do the right thing. In promoting upright conduct, factors that affect the person from within (rotten apple elements) and situational factors (rotten barrel elements) need to be addressed. Specifically, the former include factors such as: *innate psychological imbalances* (anxieties, self-doubts, fears, narcissistic behaviour and other mental and personality disorders), *desensitisation* (gradually not taking notice of ethical transgressions), *distractions* (lack of attention to details), *moral exclusion* (not taking into account key stakeholders' views and those involved in the decision-making process), *quid pro quo arrangements* (transactions that put one in a situation that can compromise one's integrity), *fixation* (ignoring important considerations), *diffusion of responsibility* (shifting blame on others or 'passing the buck' mentality), and *other factors* (pride, laziness, lack of ambition, abuse of power, irresponsibility, incompetence, lack of resources, complacency, etc.); the latter includes: *scripts* (unreflective behaviour in familiar situations), *socio-cultural factors* (gender roles, power imbalances, norms, etc.), *the availability syndrome* (ease of access to company's resources), and *golden shackles* (incentive to look the other way). Both rotten apple and rotten barrel considerations need to be concurrently addressed for developing and improving the organisational culture and promoting virtuous behaviour at the individual level.

³⁵ Aristotle further distinguishes between two (2) types of *akrasia*: *asthenia* (one who does not deliberate and makes a choice) and *propeiteia* (one who does not deliberate and makes a choice). It appears that situationists subscribe to the view of character that can be identified with the latter (that is, characterised by a stimulus-response notion of character) and so may so be working with a narrow or incomplete account of character.

(6) What are the key drivers, determinants or causes of unethical behaviour and unethical decision-making? Was the recent global financial meltdown the result of narcissistic behaviour, corporate greed and collusion, or were companies driven by market forces which they were unable or unwilling to resist?

Generally, determinants of unethical behaviour include those that relate to the rotten apple causes (motivations and desires, moral objectives and action), those that relate to rotten barrel causes (situational factors, organisational culture and consequences), and those that relate to the rotten core causes (liberal capital market economies). Effective governance ought to focus on all three (3) levels especially at the rotten apple level, an area that has largely been neglected or overlooked in suggested reforms. This emphasises the development of the virtuous person who has the prudence, courage, discipline, and justice to make and implement morally-upright decisions in order to overcome and respond to situational influences of the rotten barrel and rotten core factors. While regulations and oversight are necessary for the proper functioning of capital markets, without virtue the best laws and regulations can easily be abused or manipulated; such institutional arrangements can never be a substitute for personal virtue for safeguarding the common good. Laws and regulations, though they serve to enforce a minimal obedience, can never be sufficient to ensure justice. When real virtue is achieved (when self-mastery is attained), equity or the spirit of the law is effectively transmitted. Pollution of the market is directly related to pollution of the spirit. If this is not urgently addressed (through education in professional ethics through the development of knowledge of true and right, and the proper use of one's freedom in the pursuit of the good), there will be a perpetuating of the issues. In defining an ethical organisational system, it first requires the virtuous agent (at least by those who govern) in order to effectively promote good governance.

To promote ethical behaviour and an ethical culture requires the frequent examination and formation of one's conscience by appealing to first principles of reasoning, learning from one's experience (especially mistakes), seeking advice from someone who has consistently demonstrated good practical judgment (an effective characteristic of leadership can be seen in those who surround themselves with a certain moral and intellectual quality of executives who can challenge and strengthen the leader's defects as opposed to those leaders who surround themselves with co-narcissists), emulating the behaviour of moral exemplars, avoiding morally-dangerous situations and seeking situations that are conducive to ethically-desirable

conduct³⁶, avoiding high pressure decisions situations (if possible) by encouraging decisions in situations where one can deliberate and reflect on personal/corporate values, scrutinising the concrete situation, and actively engaging in moral reflection and imagination. In order for one to be truly a master of one's own act and accept moral responsibility for the consequences of one's decisions, one must cultivate the disposition needed for rational behaviour (right memory and imagination, managing one's passions, recognising one's strengths and limitations, etc.).

One of the key issues isn't only that most people have weak characters, but whether or not the leadership (*tone at the top*) is able to define (mainly through example by living and practicing ethical values and beliefs espoused by the principles of human dignity, solidarity, subsidiarity and the common good) an ethical organisational culture. Williams and Murphy (1992) are of the view that when an ethics of virtue informs a corporate culture, a shared theory of goods and a common consensus on the hierarchy of goods guides organisational life. The market system (defects which are related to the rotten core) also needs to be directed by these principles (human dignity, common good, solidarity, and subsidiarity) which are critical to the success of building an ethical culture (defects which are related to the rotten barrel) and promoting ethicality at the individual level (defects which are related to the rotten apple).

(7) What is the role of practical judgment and other virtues in business and ethical decision-making?

In particular, the key virtue that 'glues' the other moral virtues is prudence or practical judgment characterised by: the habit of knowing how to act morally upright in concrete situations; the ability to discern the true ends or purpose of human conduct in choosing the appropriate means in attaining this end; the cautious and decisive faculty for shaping things reflected in the hesitant seriousness and filter of reflection and daring courage for definite resolution; the clear-headed thinking, uprightness, open-mindedness, and impartiality elevated above all difficulties and expediencies; the ability to establish the link between knowing and doing in regulating the dynamic interplay between knowledge and behaviour; and the right moral beliefs and requisite knowledge to reach a morally upright decision which fills the 'gap' between indeterminacy and algorithmic formulations. Intellectual activity does not make one

³⁶ In an Aristotelian-Thomism view, one can effectively avoid occasions or wrong-doing if one possesses the virtues of humility (which is the recognition of one's limitations) and courage (in this case, to immediately turn away from the temptation).

unqualifiedly good, but good only in a restricted sense (for example, technical competency). Prudence can be considered not only as an intellectual virtue, but also as a moral one since: it directs one toward one's goal, it is also subject to the dominion of the will, and it does not so much depend on one's intellectual ability as in the strength of one's will (one of low intelligence can be prudent through the influence of the will).

Since the function of the intellect is to discover truth (its object), then 'lies and deceptions' from the outside (for example, prejudice, racial intolerance, and social discrimination) and from within (for example, selfishness, envy, greed, and self-doubts) are its enemies. Relationship between 'intellect and truth' cannot be considered without reference to the 'will and good'. For example, although the intellect may be clear and certain of what is true, the will can 'hijack' or 'usurp' the function of the intellect (the selfishness of the will is capable of preventing the intellect from recognising truth) by directing it to find justifying reasons for a preferred solution based on pleasurable or useful outcomes. Weakness of the will (*akrasia*) is also manifested when one knows what the right thing to do is but is unable to do it (this indicates an inability to bring knowledge and desires into a coherent action which the virtues attempt to rectify). Errors of the intellect can also have an effect on the will (the pride of the intellect is capable of distorting the good it presents to the will). For example, the practical judgment of the intellect can be affected by *arrogance*, *presumption*, *prejudice* (that is, judging from insufficient evidence or substituting 'wishing' for 'thinking') and *intellectual license* (that is, the notion that one is free to doubt, affirm or deny what pleases a person as reflected in relativism and subjectivism). The pride of the intellect and the selfishness of the will can therefore reinforce the errors of each other. In addition, if the senses (both internal and external) are defective, the power of the intellect to apply practical judgment would be hampered. The passions in themselves are morally-neutral, however, insofar as the will permits a disorder in the passion (that is, if the passions are allowed to rule reason), the power of reason may fail to judge adequately especially when they are aroused by powerful situational influences).

To act well, the intellect must be able to recognise and distinguish a true good from an apparent good and present it to the will (this requires the virtue of prudence). The will requires a special habit to respect the rights and goods of others (this requires the virtue of justice). One must restrain oneself with reason in pursuing sensible goods (this requires the virtue of temperance) and from acting unreasonable in the face of difficulty (this requires the virtue of

fortitude). One can view ethical decision-making as fundamentally comprising the harmonious relationship between the use of reason (intellect and will) which ought to regulate the passions (Arjoon, 2010b). This harmonious interaction among the powers of the intellect, will and passions is an expression of the unity or integrity of a person. Burke (2007) views rational decision-making as an intellectual-volative process which leads to human flourishing in which the discerning intellect penetrates to the truth and the upright will is drawn to the goodness it contains. A decision made relying only on the faculty of the intellect (*pure rationalism*) is cold, farsighted, lacks compassion, understanding, empathy, and fails to inspire; one that relies only on the will (*voluntarism*) is merciless since it is executed without principles or respect for the right of others; and a decision made without intellect and will (*pure emotionalism/sentimentalism*) is unreasonable and imprudent since it leaves a person vulnerable and at the mercy of the environment or of the shrewd persons (for example, the narcissists) who often manipulates situations to their own personal agenda (Burke, 2007).

Arjoon (2010b) offers some practical suggestions for maturing the intellect, training the will, and safeguarding the passions respectively: avoiding harsh or uncharitable criticisms, making an effort not to be overly preoccupied with one's own concerns (for example, concerns about one's health or financial situation, whether people think well of one or take one's expertise or viewpoints sufficiently into account, etc.), avoiding undue curiosity, and judging hastily; being courteous and polite to others, expressing gratitude, apologising when one has offended someone else, working with intensity and with order, finishing off in a timely manner a job which one has started, helping or facilitating others to do their work in a professional manner, not speaking excessively about oneself and of what one has done or plan to do, not speaking ill of others, and getting up on time; practising sobriety, not blaming but encouraging others, and getting rid of useless thoughts, and guarding one's sight.

(8) Do we need a radical overhaul of corporate governance mechanisms or can companies be relied upon to regulate themselves? Can regulations keep up in dealing effectively with scandals to achieve greater trust and confidence? Can ethical standards be improved without introducing additional legislations that can foster further regulatory burdens? Is there an optimal balance between rules-based and principles-based approaches for effective governance?

The concepts of *freedom of indifference* (which is the source of the ethics of obligation or law of duty that is seen as an external limit imposed on the agent) and an Aristotelian-Thomistic view of *freedom for excellence* (which inspires an ethics of virtue and governs the dynamism and development of one's faculties for action toward one's happiness) are the basis for the link between corporate governance and ethics. These two (2) concepts of freedom provide the theoretical basis for explaining the different ethical behaviours that arise out of legal compliance (*law of duty*) and ethical compliance (*rule of joy*). The distinction between these two concepts provides a theoretical basis for explaining why legal compliance mechanisms are insufficient in dealing with fraudulent practices and may not be addressing the fundamental issues that inspire ethical behaviour. The tendency to over-emphasise legal compliance mechanisms may result in an attempt to substitute accountability (that is, being open to judgment from one's peers) for responsibility (that is, acting with deliberation and accepting consequences for decisions taken).

Ethical decision-making and corporate governance mechanisms are the product of a complex interaction between the person and the environment. One needs to look at environmental and socio-economic conditions (rotten barrel and rotten core) which constitute material, formal and final causes, and at the level of the individual (rotten apple) which contributes to the efficient causes of deviant behaviour. While the development of effective systems and structures of governance has made significant contributions in making good institutions better, recent corporate governance initiatives tend to focus on external issues and address symptomatic features (which reflect an inherently situationist view). The debate on corporate governance has largely ignored governance at the individual level. Effective governance therefore ought to also focus on the development of the virtuous person who has the courage to make and implement morally-upright decisions and at the same time, promote an ethically-charged organisational culture.

Clearly, there is a dynamic relationship between rules-based and principles-based approaches for effective governance. Until the rotten apple syndrome is recognised and dealt with effectively, there would be need for revisions (additions, deletions, and modifications) in regulatory standards. Such a scenario makes it challenging to promote a case for self-regulation and for regulations to keep up with dealing effectively with scandals with the aim of achieving greater trust and confidence (self-regulation by self-interest proves to be an inadequate principle of market regulation). It is impossible to legislate one's conscience or

morality. As argued, effective governance should also focus on addressing the rotten apple element in developing the virtuous person who has the courage to make and implement morally-upright decisions in order to overcome the secondary causes of the rotten barrel and rotten core issues. This has to start with those who are charged with the responsibility of leading (board members and senior executives) since ethical behaviour flows easiest from the top. Regulatory and structural reforms require a laborious struggle to acquire knowledge of the good and virtue. The approach to building an ethical culture in firms and society to enable people to develop and contribute to the common good ought to be the primary focus of corporate and public policy. Unless this is addressed, there will be a continued need for more regulations.

(9) Do the solutions lie outside liberal capitalism (or socialism)? Does an Aristotelian-Thomistic communitarian model provide an effective third way?

This integrating essay argues that an Aristotelian-Thomistic framework better captures and explains the metaphysical realities of the imperfection and fallibility of human behaviour in explaining the underlying causes of corporate deviant behaviour. This framework is based on a *theory of transcendence* which is a view that promotes self-giving and a spirit of service that goes beyond professional duties and legal requirements. While no economic system is a guarantee of human flourishing (which is the aim of the Aristotelian-Thomistic approach), one that is based on a purely utilitarian view (free of moral character) impedes economic progress in which the strong subdues the weak. In order to rediscover the ethical foundations of its activities, business ought to be viewed as a mediating or instrumental institution directed toward integral (cultural, material, economical, technological, physical, religious, social, emotional, psychological, sexual, etc.) human development. The liberal capitalist business model is based on a *theory of immanence* which promotes an autonomous individualism and a materialistic view of life (a materialistic culture of individualism which is contrary to the commitment of promoting solidarity and the common good), so one cannot fulfil one's full human potential (*immanentism* reduces the reality of things to their being known by a subject). Materialism prevents one from seeing the horizon of transcendence as an integral part of the human person: the quantitative has replaced the qualitative denying any consideration or

reference of a spiritual nature to the ethics of efficiency becoming the governing principle of human activity³⁷.

In order to address the rotten core aspect, what is required is not only financial and social capital, but the economy must be built on a foundation of moral capital which is precisely the cultivation and practice of human virtues and ethical principles of the common good, solidarity, and subsidiarity which promote human dignity and development. Failure to infuse these practices into business threatens the stability and survival of the firm since they are required to correct the dysfunctional aspects and ethical deficits of liberal market philosophies. The global crisis reflects a crisis of respect for human dignity, trust and personal integrity. Fundamentally, it is a crisis of a metaphysical nature which reduces the human person to an economic or material dimension that focuses on partial and technical solutions. This metaphysical crisis is blind to the spiritual dimension of human existence and fails to integrate humanism which embraces the totality of the human person. Although the market has the capacity to offer a route for the satisfaction of the material needs of people, it cannot achieve an effective efficiency without an ethical reference since there is a wide range of spiritual needs to which the market cannot offer a route to guarantee their satisfaction³⁸ as expressed by Ratzinger (1986):

Even if the market economy does not rest on the ordering of the individual within a determinate network of rules, it cannot make man superfluous or exclude his moral freedom from the world of economics. These spiritual powers are themselves a factor in the economy: the market rules function only when a moral consensus exists and sustains them.

Ratzinger (1986, p. 200/201)

Consequently, one cannot identify nor achieve more humane solutions that promote cultivation of the total person who is at once material and spiritual (as reflected in a *theory of transcendence*). The challenge therefore is to infuse the market economy with a moral conscience which ought to be included in the ethical component of individual decision-making and corporate governance. The global financial crisis of 2008 has demonstrated what can be expected in the future (in particular, instability of the economy with all its grave economic consequences and distraction from the urgent questions of human and social development) when sound ethical foundations are ignored or sacrificed.

³⁷ Social Science Academy Plenary (<http://www.zenit.org/article-29364?1=english> (2010-05-24). Weber (1952) traces the *spirit of capitalism* back to Protestant work ethic; modern capitalism has been liberated from its religious roots and traditional values (modesty, honesty, industriousness, taking pride in one's work, etc.).

³⁸ Social Science Academy Plenary (<http://www.zenit.org/article-29364?1=english> 2010-05-24).

²⁶ Presented in 1985 at a symposium in Rome entitled: Church and Economy in Dialogue.

Strictly speaking, it is not a question of a specific third way³⁹, but rather an Aristotelian-Thomism promotes systems that are informed by ethical motivations and virtue. The defect of both liberal capitalism and socialism is that they both have an impoverished view of human nature in promoting a materialistic view which corresponds to a theory of immanence. Systems of governance which are infused with ethical motivations and virtues that promote human dignity correspond to a theory of transcendence. Such systems include, but are not limited to, *moral and stakeholder capitalism*, *natural law communitarianism*, and *distributism* (the central idea here is that ownership of the means of production should be spread as widely as possibly rather than being centralised under State control or concentrated within a few large businesses or wealthy private individuals). For example, without the ethical motivations, scandals over tainted food in China would perpetuate; in recent weeks, China's news media have reported sales of pork adulterated with the drug clenbuterol which can cause heart palpitations, pork sold as beef after it was soaked in the detergent additive borax, rice contaminated with the heavy metal cadmium, arsenic-laced soy sauce, popcorn and mushrooms treated with fluorescent bleach, bean sprouts tainted with an animal antibiotic, wine diluted with sugared water and chemicals, artificial eggs made up with a concoction of chemicals, and recycled steam buns (LaFraniere, 2011). Although this requires a stronger regulatory environment (certainly as a short-term measure), a longer-term measure is the development of the virtuous agent.

In their recent article in the Harvard Business Review, Porter and Kramer (2011) note that the notion of capitalism today has certain real problems including personnel reduction, restructuring, relocation, commoditisation, little true innovation, exhausted conventional strategy models, and slow organic growth. They argued that what is needed is to explore profit opportunities that would benefit society (what is good for society is good for business and vice versa). In this new capitalism, the idea is that firms ought to maximise shared value that include social and other human values of concern that would benefit society and enhance community. In a related idea, Haque (2011) also noted that modern capitalism peaked in 1970 and has been in a continued decline (especially in 2008). The author developed a *constructive*

³⁹ This third way has been described as a new social order based on justice and charity. Pope Pius XI, in his encyclical *Rerum Novarum* published in 1891, calls this *vocationalism* or *corporatism* which refers to the issue that the right to private property ought to be balanced by the demands of the common good while guaranteeing the right of the worker to a family wage. This balance is regulated through the principles of subsidiarity and solidarity in addressing the dangers of a *laissez-faire* approach (under liberal capitalism) and excessive State intervention (under socialism).

capitalism which is tied to long-term economic, social and environmental value. Both these studies show that business, by neglecting the common good, has missed profit opportunities. Another emerging view is that of Bouee (2011) who notes that China is generally thought to have ridden out the 2008 financial crisis largely unscathed as its economy as a whole continued to grow throughout the global meltdown period. The author casts doubt on the common underlying assumption and applicability of western-style management models and proposed a model that incorporates the spiritual dimension of the human person (including mutuality, discipline, and flexibility) in dealing with modern business.

CHAPTER 8

Conclusion

This integrating essay proposes an Aristotelian-Thomism which emphasises the centrality of the human person and incorporates (1) an ethics of the good reflected in its *telos* of human flourishing (*eudaimonia* or *felicitas*), (2) a freedom characterised by the capacity to choose the appropriate means for the attainment of this end and which tends to this perfection, (3) a *realism* that is grounded in the idea that knowledge of things can be perceived by the mind which acquire data supplied by the senses that are in contact with reality (the existence of a world outside the mind), (4) a *humanism* that embraces a unitary understanding of human nature (embodiment is an expression of the human spirit), (5) natural law principles which regulates human actions in requiring one to seek one's last end, (6) virtue ethics that requires one to seek the appropriate means to achieve one's last end in which choices proceed from firmly established dispositions through deliberating well in responding to particular situations, and (7) social principles of the common good, solidarity and subsidiarity which have moral significance in promoting human dignity. This Aristotelian-Thomistic view provides the theoretical framework which forms the basis of the different modes of the philosophical enquiry used in the eight (8) journal articles submitted for examination (Appendix B), specifically, they attempt to provide a plausible basis for ethical decision-making and corporate governance in addressing and correcting dysfunctional aspects and ethical deficits of human and market behaviour. The challenge is to infuse the market economy with a moral conscience which ought to be included in the ethical component of individual decision-making and corporate governance. The global financial crisis of 2008 has demonstrated what can be expected in the future (in particular, instability of the economy with all its grave economic consequences and distraction from the urgent questions of development) when sound ethical foundations are ignored or sacrificed.

The scholarly contributions to the literature of the eight (8) journal articles which have been cited well over two hundred times (200) are as follows:

(1) *Virtue Theory as a Dynamic Theory of Business* (*Journal of Business Ethics*) proposes a meta-theory of business that links the concepts of virtues (identified as core competencies), the common good (identified as the mission of business), and the dynamic economy (grounded in the assumptions about the business environment); specifically, its main contribution lies in providing a comprehensive framework for understanding the role of virtues (as core competencies in

institutionalising corporate ethical principles) and virtuousness (the proactive pursuit of aspirations to avoid wrongdoings and enhance organisational effectiveness and societal benefits) in promoting the common good (resulting in increased likelihood of a sustainable competitive advantage and creation of wealth) as a basis for ethical leadership and corporate social responsibility.

(2) *A Communitarian Model of Business: A Natural Law Perspective* (*Journal of Markets & Morality*) offers a communitarian view of business (which represents a balance and order between the claims of the liberalist and socialist business models) in defining the business organisation as one that incorporates its social purpose that acknowledges the primacy of people over profits; specifically, its main contribution lies in supporting a socially-conscious business model that avoids the extremes of liberal capitalism (which some have argued bear much of the blame for the recent global financial crisis) and centrally-controlled model of social responsibility.

(3) *Corporate Governance: An Ethical Perspective* (*Journal of Business Ethics*) makes the distinction between ethical and legal compliance approaches to corporate governance in arguing the necessity and importance of the former approach as a basis for an effective legal compliance culture; specifically, it promotes the development of trust and credible reputation in building investors' and consumers' confidence, employees' loyalty, and stakeholders' relationship.

(4) *Striking a Balance between Rules and Principles-Based Approaches for Effective Governance: A Risks-Based Approach* (*Journal of Business Ethics*) highlights the drawbacks of an excessively heavy reliance on rules-based approaches to corporate governance such as Sarbanes Oxley; specifically, it promotes a risks-based approach that captures the benefits of both rules-based and principles-based approaches which emphasises the importance of strong ethical organisational cultures for leadership practices and personal behaviour in promoting regulatory compliance and social responsibility.

(5) *Ethical Decision-Making: A Case for the Triple Font Theory* (*Journal of Business Ethics*) offers a comprehensive, systematic, practical approach to ethical decision-making that attempts to integrate virtue ethics into tradition act-oriented normative ethical theories; specifically, it highlights the role and understanding of practical wisdom in the proper application of the Principle of Double Effect.

(6) *Reconciling Situational Social Psychology with Virtue Ethics* (*International Journal of Management Reviews*) attempts to reconcile the virtue ethics-situational social psychology debate through an Aristotelian-Thomism framework in overcoming the problems associated with inter-goal

conflicts/imprecision and inadequate regulative ideals; specifically, it provides a balanced view of the interaction between environmental influences and inner characteristics.

(7) *Slippery when Wet: The Real Risk in Business* (*Journal of Markets & Morality*) identifies factors that contribute to corporate deviant behaviour from both an individual and organisational perspectives within the framework of the Continuum of Compromise which recognises the different risk-attitude profiles associated with the potential for radical deterioration of socio-moral inhibitions and a perceived sense of permissibility for deviant conduct; specifically, it emphasises the importance of a strong ethical organisational culture developed through the practice of the virtues.

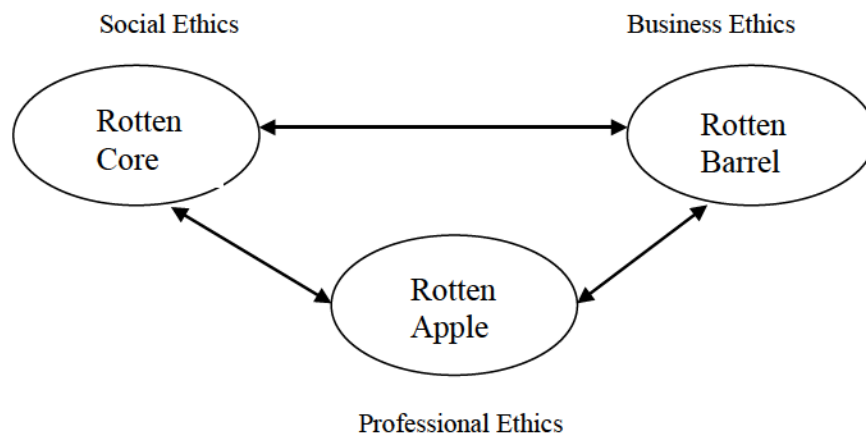
(8) *An Aristotelian-Thomistic Approach to Management Practice* (*Philosophy of Management*) argues that an Aristotelian-Thomistic humanism better promotes human dignity as it corrects the dysfunctional aspects and ethical deficits than its utilitarian naturalistic humanism counterpart; specifically, it elaborates the organisational policies and management practices under both humanism in arguing the importance of integrating Aristotelian-Thomism principles to provide stability and survival of the firm.

Future Research

Figure 5 shows the role of applied ethics in addressing the rotten core aspects (*Social Ethics*), rotten barrel aspects (*Business Ethics*), and rotten apple aspects (*Professional Ethics*). Research findings in this integrative essay indicate that individual governance has largely been ignored in the literature. This paper argues for systems that are infused and informed with the ethical principles of solidarity, subsidiarity and the common good based on Aristotelian-Thomistic humanism. This is the subject of *Social Ethics* (relates to the rotten core) which according to Messner (1965) applies the principles of natural law to the task of (1) examining the existing social institutions (in this case, business) with regard to the extent that they are in harmony with one's existential ends and that they are fitted to realise them (*social criticism*) and (2) ascertaining the natural order of the spheres of social life insofar that this can be known from these principles applied to existing conditions (*social reform*) (p. 376). *Business Ethics* (relates to the rotten barrel) covers broad areas in ethics as applied to business and includes areas such as corporate social responsibility, corporate governance, the environment, organisational ethics (culture, work, structures, rights, regulations, etc.). Much research and applications have been developed under Business Ethics. *Professional Ethics* focuses on individual governance and deals with abuses of power and authority, conflicts of interest,

moral relevance of work, application of principles in ethical decision-making, professional responsibility, etc. Specific areas that need to be addressed are irrational exuberance of lenders and borrowers, executive overconfidence, heuristic and self-serving biases, and managerial miscalibrations. In light of the consequences of the global financial meltdown, there would be an increasing demand for ethically-sensitive (not just technically-competent) business professionals. In particular, the perennial question of whether or not virtues can be taught need to be revisited in developing professional ethics programmes.

Figure 5
Role of Applied Ethics



An Aristotelian-Thomistic approach to professional ethics that incorporates both principles and virtues (principles without virtues become too abstract or ethically-insensitive, and virtues without principles can fall into the abyss of relativism) can provide new insights into promoting human dignity and the common good. In this approach, human flourishing (the goal of the moral and professional life) is achieved through perfecting one's real self (*human nature as is* characterised by its susceptibility or proneness to error) toward one's ideal self (*human nature as it ought to be* characterised by its natural inclination toward the acquisition of truth and goodness). The reduction of this real-ideal moral gap can be accomplished through a process of attaining self-knowledge; this process provides an opportunity of exploring the challenge of how principles and virtues can be put into practice.

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GLOSSARY OF TERMS

Accountability

Being open to judgment from one's peers.

Administrative Commission

A state in which one commits relatively minor moral infractions.

Akratic

In reference to the incontinence or lack of self-mastery which describes a person who experiences feelings that are contrary to reason and gives into those feelings rather than reason.

Aristotelian Moral Characterological Psychology

The study of morality in its psychological dimensions including moral commitment, intention, action, emotions, judgment and character.

Asset-Backed Securities

Securities that are backed by assets.

Astheneia

A Greek term which refers to a morally weak person who goes through a process of deliberation and makes the choice that is contrary to reason.

Availability Syndrome

A situation in which corporate fraud occurs when funds or resources are readily available without the appropriate system of checks and balances.

Cardinal Virtues

Comprise the four virtues of prudence, justice, fortitude, and temperance.

Character or Personality Traits

It can be defined as an agent's internal structure which accounts for characteristic behaviour, information processing, and subjective experience. They are broad-based dispositions to respond in a relevant manner to situations of corresponding sort; it includes moral and non-moral traits that incorporate both values and behaviour; qualities that distinguish one individual from another. Broad character traits function well across the range of choices that involve intelligent risk-taking; narrow character traits involve a strong tendency to function well in certain kinds of choices in certain kinds of situations. Character traits are mentally-grounded, dynamic, and global; it concerns consistency, stability, and integration. Uncommon traits are referred to as dispositional traits, while common traits are situational. Traits can be behavioural, cognitive, motivational or emotional in nature; they may be external, behavioural and directly observable traits or internal, emotional and cognitive structures that must be inferred from external traits. There is also a subtle difference between a character trait and a personality trait, for example, if one is shy in the midst of a group but not in private, the shyness is due to one's personality, not to one's character. One can also make a distinction between extra-classical account of character traits that endorses flexible traits that might issue in behaviour across any narrow or broad range of situations, and static traits that might result in no behaviour at all.

Classified Boards of Directors

A situation in which directors serve staggered terms, typically for three (3) years with one-third of the directors elected each year.

Collateralised Debt Obligations

Securities that are created from a portfolio of obligations.

Common Good

This principle reflects the social conditions which allow each and every person to fulfil his or her goal of human flourishing (materially, spiritually, culturally, etc.). It is not to be understood as merely consisting in the sum of individual goods.

Communitarianism

A socio-political perspective that recognises: (1) both human dignity and the social dimension of human existence, (2) that the preservation of individual freedom depends on active maintenance of the institutions of civil society, and (3) that communities and polities have duties to be responsive to their members, as well, to foster participation and deliberation in social and political life.

Confirmation Bias

Having attributed a character trait to a given person, an observer has a strong tendency to continue to attribute that trait to the person even in the face of considerable disconfirming evidence. In other words, there is a bias toward noting evidence that is in accord with the person's character and toward disregarding evidence against it.

Consciousness

The coordinating internal sense is an act or judgment which recognises one's knowing, willing and tendencies.

Continuum of Compromise

Also captured by the metaphor 'slippery slope', it demonstrates the potential for radical deterioration of socio-moral inhibitions and a perceived sense of permissibility for deviant conduct.

Corporate Governance

A system by which business corporations are directed and controlled which specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions in corporate affairs. By doing this, it also provides the structure through which company objectives are set and the means of attaining those objectives and monitoring performance (OECD April 1999).

<http://www.encycogov.com/WhatisCorpGov.asp>).

Correspondence Bias

See Fundamental Attribution Error.

Creative Destruction

Entrepreneurs who destroy the static economic circular flow by disrupting the existing productive framework.

Credit Default Swaps

Securities that provide insurance against a bond default.

Criminal Commission

Acts characterised by moral transgressions in which rules no longer apply and by an insatiable drive to acquire wealth.

Cross-Situational or Trans-Situational Consistency

Refers to character and personality traits that are reliably manifested in trait-relevant behaviour across a diversity of trait-relevant eliciting conditions; in other words, it refers to the robustness of character traits.

Decision-Making (Ethical)

The psychological process that reflects the interplay between the will and the intellect which includes appreciation, wish, judgment, intention, deliberation, decision, choice, command, application, performance, and completion. It is a human activity comprising the use of reason (intellect and will) and the passions or emotions.

Desensitisation

Analogous to the metaphor or parable of the 'boiling frog': a frog that is dropped into boiling water will jump out; one that is placed in cool water that is gradually heated, will unsuspectingly take no notice of the temperature change, only to be boiled.

Dialectical Reasoning

A method of philosophical argumentation that attempts to discover or uncover the truth about something by working one's way through a series of partial truths; it involves and begins with the antagonism between opposing ideas or approaches and retains what survives.

Diffusion of Responsibility

Unethical behaviour that results from bystander apathy, the division of responsibility, obedience or deferral to authority, 'passing the buck' mentality, etc.

Dispositionalism

Refers to globalism with respect to character traits.

Distractions

Not paying attention to small details that can result in ethical lapses.

Distributism

An economic system that promotes the idea that the ownership of the means of production should be spread widely as possibly rather than being centralised under State control or concentrated within a few large businesses or wealthy private individuals.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (or simply referred to as the Dodd-Frank Act approved in July 2010) is a comprehensive act that provides for significant changes to the structure of federal financial regulation and new substantive requirements that apply to a broad range of market participants (including public companies that are not financial institutions) and includes: corporate governance and executive compensation reforms, new registration requirements for hedge fund and private equity fund advisers, heightened regulation of over-the-counter derivatives and asset-backed securities, new rules for credit rating agencies, mandates significant changes to the authority of the Federal Reserve and the Securities and Exchange Commission as well as enhanced oversight and regulation of banks and non-bank financial institutions.

Efficient Cause

Refers to the agent or maker of the thing (who made this or who brought it into being?)

Enkratic

Continence or self-mastery which describes a person who experiences feelings that are contrary to reason, but acts in accordance with reason.

External Goods

Goods, when acquired or achieved, are always some individual's property, for example, profits.

External Governance

Mechanisms that address the issues that financial institutions face in the marketplace.

Eudaimonia

Greek term that refers to human flourishing or happiness.

Evaluative Integration or Consistency Thesis

In a given character or personality, evaluative valence is probabilistically related to the occurrence of other traits with similar evaluative valences; in other words, it refers to the idea that the virtues form a unity.

Final Cause

Refers to the ends or purpose for which something is made (what is this thing for?).

Fixation

Focusing exclusively on a goal without regard for other important considerations.

Form

The essence of something: what makes something to be what it is. It can either be substantial (that which exists by itself) or accidental (that which exist only in another, for example, colour, size, thinking, etc.).

Formal Cause

Points to the essence of the being or what the thing is (what is this?).

Formal Cooperation

Occurs when one helps another person to commit an immoral act and joins in the other person's intention.

Fragmentation Theory of Character

Each person has a whole range of dispositions, each of which has a restricted situational application.

Freedom for Excellence

Inspires an ethics of happiness and virtue which govern the dynamism and development of a person's faculties of action. It is reflected in ethical compliance or the rule of joy.

Freedom of Indifference

The source of ethics of obligation and is seen as an external limit imposed on the agent. It is reflected in legal compliance or the law of duty.

Fundamental Attribution Error

Also known as the *correspondence bias*, is a bias toward explanations in terms of corresponding character or personality traits (ignoring situational factors) and is associated with a perceptual tendency to pay more attention to a figure (the alleged possessor of the character traits) than to its grounds (the concrete situation in which the person acts) as explanatory factors of the person's action. In other words, much of our ordinary moral thinking commits the *fundamental attribution error* when someone assumes that behaviour patterns are due to character traits of an agent, rather than to situational factors.

Geometric Methodology

A method used to determine whether or not a particular case and its solution conform to certain stipulated conditions.

Globalism

Refers to theories that hold the characteristics of cross-situational consistency, stability, and evaluative integration.

Goal Imprecision

The challenge to make the right decision among difficult decision alternatives.

Golden Mean

The mean of a virtue that lies between two vices: an excess and a deficit.

Human Virtues

Include both intellectual and moral virtues.

Idealism

The view that reality depends on the human mind.

Imagination

The power to reproduce sense experiences and elaborate on them.

Immanentism

A theory of immanence refers to a self-enclosed system which takes a mechanistic and materialistic view of life, and promotes an autonomous individualism. It reduces reality of things to their being known and therefore prevents one from seeing the horizon of transcendence as an integral part of nature.

Individual Governance

Ensures that individuals are able to fulfil the obligations of both internal and external governance.

Instinct

The power to feel sensible experience without thinking.

Internal Goods

Goods that are unique, intangible, unlimited in supply and have intrinsic value, for example, the virtues.

Internal Governance

Addresses responsibility and accountability of the firm.

Innate Psychological Imbalance

Innate tendency to commit corporate fraud because of uncontrollable instincts (for example, faulty ego or an underdeveloped conscience in which one does not learn from one's experience, handle appropriately frustrations and insecurities, feels no remorse for wrongdoing, and possess an inadequate perception of social reality that predispose one to acts of corporate transgressions).

Intellect

The distinctive spiritual power of knowing which enables one to know universal concepts through its powers of reflection, abstraction, and understanding. Like the will, it is completely independent from material conditions and is itself an immaterial or non-corporeal power.

Intellectual Virtues

Those virtues that perfect the intellect: understanding, science, wisdom, prudence, and art. The first three are speculative or theoretical (with a focus on what is true) and the last two are practical (with a focus on what is good).

Inter-goal Conflict

The challenge of doing the right thing especially in the context of powerful situational factors.

Legalism

An approach which emphasises the strict and precise observance of law while tending to overlook the purpose for which the law exist.

Local Situation-Specific Dispositions

These are local character traits dispositions, for example, ambling-along-compassionate, not-in-a-group-compassionate, authority-figure-present-honest, loyal-to-her-husband-only-when-sober, close-friend-honesty, good-mood-compassion, etc.

Material Cause

Refers to the matter of which a thing or being is made of; with respect to the causes of failures, it refers to corporate and country governance mechanisms.

Material Cooperation

Occurs when helps another person to commit an immoral act, but does not intend to take part in this act.

Methodological Individualism

Social unities and relations among members can be reduces to non-social properties of the members.

Memory

The power to recognise past experience precisely as past.

Moral Capital

Refers to the cultivation and practice of the human virtues and ethical principles.

Moral Exclusion

Exclusion of those people who are perceived to be at the periphery of the decision-making situation.

Moral Virtues

Those virtues that perfect the will: justice, fortitude, temperance, kindness, compassion, etc.

Narcissistic Personality Disorder

Includes an extravagant sense of self-importance and superiority, an unreasonable sense of entitlement, self-centred and self-referent behaviour, exaggeration of talents, boastful and pretentious behaviour, grandiose fantasies of unlimited success, the belief that one is so special that one can only be understood by equals, a yearning for attention and admiration, a willingness to exploit others, lack of empathy, envy and the belief that others envy them, and arrogant behaviour.

Natural Law

The law of a person's nature striving in its fundamental instinct toward human flourishing or happiness, that is, it is the set of rational laws which expresses the ordaining of natural tendencies or inclinations toward one's end or good.

Natural Law Humanism

Holds the view that human nature is both materialistic and spiritualistic. It corresponds to a spiritualistic or theocentric (God-centred) attitude in understanding human nature.

Naturalistic

A self-sufficient worldview in which the natural world can be completely understood in scientific terms without having recourse to any spiritual or supernatural explanation.

Naturalistic Humanism

Holds the view that human nature is deterministic or materialistic. It corresponds to an anthropocentric or immanentistic (human-centred) view of human nature. It includes such philosophies as rationalistic humanism (emphasises the autonomy of human reason), scientific humanism (uses the methods of natural sciences in explaining behaviour), humanism of dialectical materialism (development is the struggle of opposites), psychoanalytical humanism (behaviour is motivated by physiological drives), behaviourist humanism (the human person is a higher animal without a spiritual soul), neo-positivist humanism (knowledge is the only reality which is perceptible to the senses), existential humanism (we can only know about the 'how' of the human being, not about the 'what'), and idealistic humanism (conceives the human person and all reality as forms of evolution of spirit).

Non-Moral Character Traits

Describes the qualities of a person, for example, introversion vs. extroversion, neuroticism vs. emotional stability, etc.

Non-Reflexive Goods

See substantive goods.

Nominalism

A system of thought which affirms that nothing is real except the individual and his or her singular acts. Universal concepts have only a *nominal* value. It focuses morality on the relationship between free acts (freedom) and legal obligations (law); the latter is given priority which is the basis for the moralities of obligation, duty, and moral imperatives.

ODNA

A metaphor which attempts to apply the all-inclusive biological characteristics of DNA which reflects the underlying factors that defines an organisational culture with a collective focus on common goals and helps explain its performance.

Omissions (Acts)

Neglected duties that are characterised by doing just enough to get by.

Ordinary Unethical Behaviour

A state of conscious and deliberate lack of zeal or prolonged carelessness.

Passions

Sometimes referred to as appetites or emotions, they are the moving principles of one's life expressed as a longing for something not yet possessed. They can be categorised as *simple* which is the tendency to the good as enjoyable (includes love, hatred, joy, sorrow, desire, and aversion) and *irascible* which is the tendency to the good as difficult to attain (includes hope, despair, courage, fear, and anger).

Perceived Victimisation

Occurs when one feels that one is not appreciated or justly rewarded for one's work, is not paid for overtime, is overlooked for promotion, is not consulted in an important decision even though one may be an expert in that particular area, is excluded because of apparent favouritism, etc.

Personalist Principle

Human beings should never be treated as a mere means to an end (negative formulation)/persons should be treated not only with respect but also with benevolence and care (positive principle) (Mele, 2009, p. 81).

Phantasm

Composed of the sensations of the external senses and the perceptions, images and recollections of the internal senses.

Practice

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. (MacIntyre, 1984, p. 187).

Pre-Moral

The act-will acquires moral value when the will accepts the act in its relation to the moral law; in preliminary judgment, the level of *rightness* is distinguished from the level of *goodness*. Free choice does not *proceed* from reason and will; instead, it *precedes* them on the level of action for one can choose to think or not to think, to will or not to will.

Principle of Double Effect

The principle states that given the fulfilment of four conditions, an action with at least one good effect and with at least one evil effect may be legitimately performed. The four conditions are: (1) the action itself must be morally good or at least amoral, (2) the good effect(s) must not be obtained through or by means of the evil effect(s), (3) the evil effect must not be intended, but rather only tolerated, and (4) there must be sufficient serious reason to justify allowing the evil effect(s).

Principles-based Approach

Ethical principles which emphasises ‘doing the right thing’ and includes and extends the legal domain to issues that rules and regulations do not address.

Propeteia

A Greek term which means impetuosity. It refers to a person who does not go through a process of deliberation and so does not make a reasoned choice.

Prudence

Also known as ‘practical judgment’ or *phronesis*, is the capacity to make wise decisions regarding which other moral virtues are to be enacted in concrete situations; it requires perception, deliberation, and choice of the most appropriate response. Prudence relies not only upon situational-appreciation, but also upon general moral truths.

Psychological Realism

Constructs moral theories in accordance with actual human capacities.

Quid Pro Quo

Arrangements that puts oneself in a position in which one can compromise one's integrity.

Reflexive Goods

Refer to goods whose meaning inherently implies human action or choice.

Regulative Ideal

An internalised normative disposition to direct one's actions and alter one's motivation in certain ways.

Relational Goods

See reflexive goods.

Responsibility

Acting with deliberation and accepting consequences for decisions taken.

Regularity Theory of Character

Refers to behaviour that is regulated by long-term dispositions.

Rules-based Approach

A specific set of procedural requirements that emphasise details and enforceability; it tends to be quantitative and objective.

Sarbane-Oxley Act

The Sarbanes-Oxley Act came into force in July 2002 and introduced major changes to the regulation of corporate governance and financial practice. It is named after Senator Paul Sarbanes and Representative Michael Oxley, who were its main architects, and it set a number of non-negotiable deadlines for compliance.

Scripts

Rote behaviour that replaces careful and active thinking; it occurs when one encounters familiar situations.

Self-regulation

The process in which one controls one's behaviour on the basis of one's belief or external standard.

Shadow Banking

A system which allows financial institutions to engage in transactions with little real transparency, sufficient capital or meaningful oversight.

Short-termism

The tendency to focus attention on short-term gains at the expense of long-term stability.

Situationism

Holds the view that morally significant behaviour is affected by the features of the immediate situation which: (1) are not in themselves morally significant, (2) are not of great motivational significance, (3) are not well-known either to lay people or to the philosophical literature, (4) are numerous, and (5) do not form a coherent class from the point of view of folk psychology.

Slippery Slope

See Continuum of Compromise.

Social Mortgage

Conditions under which allow one to use goods with responsibility toward others.

Solidarity

A principle of fellowship which disposes persons to identify with others since all persons share a common humanity; the principle recognises the dynamic interdependence among people and firms in promoting the common good.

Soul

The configuration of the powers and capacity of the body so that it can operate as that sort of thing.

Spiritual Toxicity

Also referred to as *toxic pollution* or *self-pollution*, this concept reflects the disordered relationship between intellect and will as reflected by those ideologies which separate truth from freedom.

Stability

Refers to character and personality traits that are reliably manifested in trait-relevant eliciting conditions; in other words, it refers to traits that remain over time.

Subsidiarity

A principle of self-help which encourages the idea that what could be done by a smaller body should not be done by a larger one; undue interference deprives the smaller body of its functions, and the higher body should support it in the case of need or coordination.

Subprime Mortgages

Securities that are created from a portfolio of mortgages.

Substantive Goods

Goods that are defined in terms of or provide reasons for choosing.

Systemic Risk

Risk that affects an entire financial market or system, not just specific participants, and it is difficult to avoid even through diversification.

Taxonomic Methodology

A method that employs a detailed comparison and contrast of related cases which requires the use of practical judgment.

Telos

Greek term that refers to the goal or end of human action.

Transcendence

A view that promotes self-giving and a spirit of service that goes beyond professional obligations.

Triple Font Theory

An ethical theory which identifies three sources or determinants of morality: (1) the moral object of end of the human action, (2) the subjective or personal intention of the agent, and (3) the circumstances and consequences stemming from the act.

Virtues

Understood as those dispositions which will not only sustain practices and enable us to achieve the goods internal to practices, but will also sustain us to overcome the harms, dangers, temptations and distractions which we encounter, and which will furnish us with increasing self-knowledge and increasing knowledge of the good (MacIntyre, 1984, p. 219). Virtuous persons repeatedly demonstrate sound conduct, show a capacity for making tough decisions, accept and understand their limitations, and recognise their potential to go astray.

Virtue Theory

Holds the view that the foundation of morality lies in the development of morally good character traits or virtues; a person is said to be 'good' if he or she possesses virtues.

Volcker Rule

Named after former Federal Reserve Chairman Paul Volcker, the rule was introduced following the recession of 2008, to control the risk associated with the financial sector and includes: trading restrictions placed on financial institutions; separation of investment banking, private equity and proprietary trading (hedge fund) sections of financial institutions from their consumer lending arms; prohibiting banks to simultaneously enter into an advisory and creditor role with clients such as with private equity firms; aims to minimise conflicts of interest between banks and their clients through separating the various types of business practices financial institutions engage in; and aims to protect individuals by creating a more transparent financial framework which can be regulated with greater ease.

Will

The spiritual power to choose among rational alternatives and moves in response to the appeal of goodness in striving toward human flourishing. Like the intellect, it is completely independent from material conditions and is itself an immaterial or non-corporeal power.

APPENDIX A

Citations on Publications submitted for Examination

Total number of Citations: Two Hundred and Twelve (212)

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APPENDIX B
Journal Articles submitted for Examination

- (1) Virtue Theory as a Dynamic Theory of Business, *Journal of Business Ethics*, 28(2): 159-178 (2000).
- (2) A Communitarian Model of Business: A Natural Law Perspective, *Journal of Markets and Morality*, 8(2): 455-479 (2005a).
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Virtue Theory as a Dynamic Theory of Business

Surendra Arjoon

ABSTRACT. This paper develops a meta-theory of business based on virtue theory which links the concept of virtues, the common good, and the dynamic economy into a unifying and comprehensive theory of business. Traditional theories and models of business have outlived their usefulness as they are unable to adequately explain social reality. Virtue theory shows firms that pursue ethically-driven strategies can realise a greater profit potential than those firms who currently use profit-driven strategies. The theory expounds that the business of business is ethical business and that the crises that business and society face today are crises of leadership and ethics. The issues of leadership and corporate social responsibility are discussed in the context of the proposed theory.

KEY WORDS: common good, corporate social responsibility, dynamic economy, ethical leadership, sustainable competitive advantage, virtue theory

Introduction

We have seen, in recent times especially, that increasingly more firms have been giving ethics a prominent role in developing their organizational culture. More firms are adopting professional codes of ethics and corporate credos that focus on specific rules. As well, ethics committees, ethics officers, membership in the Ethics

Officers Association, and ethical training for executives have also been on the rise. There has also been a proliferation of articles, journals, books, courses, conferences and seminars on ethics, and internet sources.¹ Many centers and endowed chairs for the study of business ethics have been continually emerging. Business ethics is also well established and is highly recommended or required in most of the leading business schools in North America. This growing concern with ethics is a response by businesses to consumer pressure, the need to provide quality service, and changing social values. There are also the demands involving the pressing social and moral issues in business, particularly the controversial issue of corporate social responsibility, for the well being of society. In addition, over the last couple of decades, the business environment has been plagued with a proliferation of ethical issues and dilemmas (corruption, bribery, shareholders and management issues, the role and responsibilities of board of directors, product safety, just wages, whistle blowing, insider trading, monopolistic price schemes, child labor).

There is increasing evidence that shows there is a positive relationship between corporate social performance (CSP) and corporate financial performance (CFP).² For example, Roman et al. (1999) found that of 52 studies, 33 suggested a positive relationship between CSP and CFP, 14 were found to have no effect or were inconclusive, and only 5 studies found a negative CSP/CFP relationship. Preston and O'Bannon (1997) also analyzed the relationship between indicators of CSP and CFP within a comprehensive theoretical framework, which revealed a strong positive correlation. Their results were based on data for 67 large U.S. corporations for

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the period 1982–1992. From a study conducted in the early 1980s by Johnson & Johnson, the Business Roundtable's Task Force on Corporate Responsibility and the Ethics Resource Centre in Washington DC, fifteen companies with written codified set of principles were examined (Caccese, 1997). The study found that if you had invested \$30 000 in a composite of the Dow Jones 30 years ago, it would be worth \$134 000 today. With the same investment in these fifteen firms (\$2000 in each), it would be worth over \$1 million. A study by the Lincoln Center for Ethics at Arizona State University demonstrated that a list of the U.S. corporations that have paid dividends for the past 100 years coincides with the Center's list of companies that have a strong code of ethics focusing on values and commitment to customers, employees, and community (Caccese, 1997). In a real sense, we are now witnessing a reintegration of ethics into business. The Conference Board (1996) Report on "The Evolving Role Of Ethics In Business," concluded that companies will increasingly need to take a proactive ethical approach to thrive – perhaps even to survive – in the 21st century. But how effective or sustainable will these so called ethical-driven strategies be if they are misdirected or taken out of context? Can businesses do better in terms of increasing their bottom-line and meeting their obligations to all stakeholders at the same time?

Codes of conduct or ethics have been traditionally used by organizations to instill and to promote ethical behaviour. An institution's ethical code is not a minor matter in management and administration, it is like the ultimate nucleus of values around which all the institution's business revolves (de Garay, 1995, p. 88). However, many codes are best seen as warnings or threats since they tend to focus on the avoidance of wrongdoing. Betsy (1996) suggested that codes are generally framed from a defensive position and are designed to protect the organization from employees. Codes can also be used as some measure of protection against the government should the company be found guilty of criminal fraud via the new sentencing guidelines. Companies that rely on codes of conduct are focusing on minimalist measures, paying lip

service for public relations or compliance purposes, are for the most part unsuccessful, and are frequently not implemented (see for example Harris, 1995; Kennedy, 1996; and Lindsay et al., 1996). Generally, codes do not inspire employees to more worthwhile habits of behavior to achieve excellence. For example, if a young executive wants to be able to be generous or to be known as trustworthy but she has never learned either, what will happen? She won't be generous or trustworthy. In other words, if someone had no idea what it is to trust, to keep a confidence or to respect privacy, codes would simply become another procedure in the mountain of bureaucracy. Ethical codes are only as effective as the willingness of those who comply strictly with them, and without the appropriate preconditions, they tend to be regressive in so far as looking backwards to past errors. This is not to say the corporate ethical code should reveal "the ultimate principle of moral right and wrong," but, if properly designed, codes of ethics can be useful in specifying what kind of ethical behavior is expected of employees in their specific responsibilities, can clarify what the organization means by ethical conduct, and can be effective in encouraging ethical behavior (Buchholz and Rosenthal, 1998, p. 177).

Traditional approaches to ethics, including codes of conduct, focus on a set of prohibitive rules and principles which are concerned with telling people how they ought to behave. These approaches to ethics ask fundamental questions: What is one's moral obligation? What ought we to do? What is our duty? What is the ultimate principle of moral right and wrong? While these issues should not be de-emphasized in their importance, business executives and managers are usually not interested in the rhetoric's of do's and don'ts, rights and wrongs, goods and bads. Ethics in that case then becomes abstractionist and fosters the separation of ethics and business either as being oxymoron or the idea that there is good business practice and then there is ethics. This phenomenon, known as the separation thesis, is the view within which business and ethics are seen as conceptually distinct and separate (Freeman, 1994). Wicks (1996) showed that there is ample evidence that the separation thesis

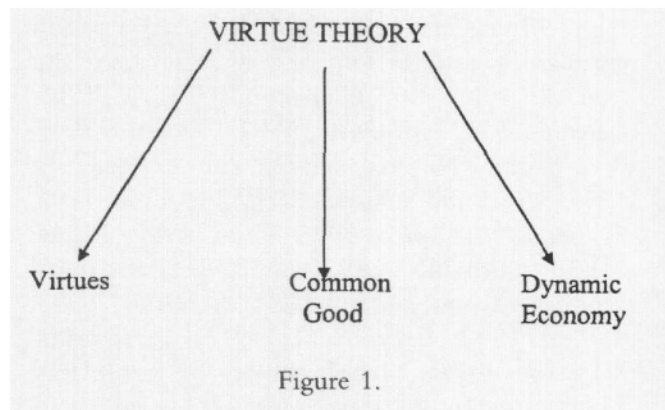
is a commonly held view and management researchers are helping to reinforce this. Virtue theory, as discussed in this paper, attempts to overcome the separation thesis by showing that ethics is indeed an inherent part of business.

The theoretical framework

Traditional approaches to ethics then tend to focus on the minimalist or negative aspect, rights and duties. An approach which is concerned with how people should behave or what sort of person one must become in order to do the right thing, is more appealing and practical. Such an approach that focuses on a purpose, on individual and collective responsibilities, and on the cultivation of character, is that of virtue ethics or virtue theory. In fact, many management best sellers talk about virtue ethics under different contexts: Covey (1989), Chopra (1995), Collins and Porras (1994), Senge (1990) and Peters et al. (1988).

Drucker (1994) proposed that a theory of business should be based on three basic assumptions: assumptions about the environment, assumptions about the mission, and assumptions about the core competencies needed to accomplish the mission. Furthermore, these three categories of assumptions must fit reality and fit one another. Virtue theory as discussed in this paper is developed in a much broader or explicit context than traditionally used. It attempts to build a meta-theory of business that is grounded in these assumptions about the environment (the concept of the dynamic economy), about the mission (the concept of the common good), and about core competencies (the concept of virtues) that better fit reality than traditional assumptions on which organizations have been built and that have outlived their usefulness (Figure 1). These three concepts (the dynamic economy, the common good, and virtues) will also be shown to be intimately linked. Of course each of these concepts cannot be adequately discussed in the confines of a single paper, but the main purpose of this work is to develop a comprehensive theory of business.

The next section develops the virtues which



are mainly based on Aristotle's *Nicomachean Ethics*. Section 3 discusses the notion of the common good, as well as the relationship between the virtues and the common good, and the common good as the goal of business. The concept of the dynamic economy is presented in Section 4. Section 5 addresses some implications and applications of virtue theory including issues of leadership and corporate social responsibility. Some final remarks and limitations are made in the concluding section.

The virtues

Virtue theory holds the view that the foundation of morality lies in the development of good character traits as virtues: a person is said to be good if he or she has virtues. Historically,² virtue theory is the oldest normative tradition in Western philosophy, having its roots in ancient Greek civilization, particularly in Aristotle's *Nicomachean Ethics* which is the earliest and most influential systematic account of virtue theory. The influence of virtue theory declined during the period of Renaissance, the Scientific Revolution, and Enlightenment (Age of Reason). The contemporary resurgence of virtue theory occurred in the late seventies and early eighties primarily through the works of British philosopher Philippa Foot (1978) and Alistair MacIntyre (1984). In the literature, virtue theory have been described by other synonyms – virtue ethics, virtue-based ethics, virtue-centered ethics, agent-based ethics, character ethics, Aristotelian ethics, and human nature

ethics.³ In recent years, there has been a proliferation of articles on virtue ethics (see for example Im, 1999; Glanzer, 1998; Yu, 1998; Keenan, 1997; Luckowski, 1997; O'Meara, 1997; Roochnik, 1997; van der Bossche and Mortier, 1997; Meara and Schmidt, 1996; Nesteruk, 1996; Payne, 1996; Punzo, 1996; Curd, 1995; Mintz, 1995; Putman, 1995; McCloskey, 1994; Woodward and Miller, 1994; Sommer, 1993; Spohn, 1992; Braybrooke, 1991; Perrett and Patterson, 1991; Sichel, 1991, and Woodruff, 1991). Specifically, this paper focuses on virtue theory as developed by Aristotle in his *Nicomachean Ethics* as translated by Library of Liberal Arts (1962).

One of the main criticisms of virtue theory is that there appears to be a lack of clear-cut rules and principles for use in ethical decision making. However, before rationalizing whether or not our actions are right or wrong based on the application of some general rules or principles, virtue theory implies that it is the cultivation of character or virtue that are preconditions, and in fact would preempt application and consideration of such rules in many cases. Attention to rights and duties are not the focus under virtue theory, rather, in addition to cultivation of character, emphasis is placed on individual and collective responsibility. This doesn't mean that virtue theory has nothing to say about rights and duties. For example, with regards to rights, Solomon (1992) suggested that emphasis should move away from having rights oneself to recognizing the rights of others, which is what a virtuous person would promote. With respect to duties, the organizational structures would define roles and responsibilities. In fact, it is the virtue of responsibility or justice that allows us to recognize and respect the rights of others, which is the source of our obligation and a sense of duty for the welfare and happiness of others. From the above, we can see that virtue theory in some sense is more basic than other moral principles and concepts since virtues are fundamental in that claims about other moral concepts are either reducible to underlying claims about virtues or justified on their basis (for further details on this line of argument see Audi, 1995, pp. 840–842). Thomas Aquinas wrote that every moral question

can be reduced to the consideration of the virtues (Keenan, 1997).

The word virtue is derived from the Greek word "arete" which is translated as excellence. Virtues are based on the idea that define good character and originally meant strength and superiority.⁴ According to Aristotle, virtue implies that there is a set of qualities which will make people fulfill their functions as people properly and well. Without virtue, people are unable to fulfill their task well. For Aristotle, it is not enough that a person have the know how of doing something, but virtue lies in the difference between doing something and doing it well or virtuously (excellently). In other words, we do not display virtue when we do something that happens to be good, but we must act with a deliberate desire to perform our function as human beings properly. Ethics, understood in the above context, would not be perceived as a constraining force on human behavior as traditional approaches⁵ (for example, deontological ethics) promote, but rather, it would now be a liberating or inspirational force since it depends on the individuals ability to pursue excellence through virtuous acts.

Virtues are acquired by habituation or repetitive practice. Practice is a critical component of many forms of virtue theory. MacIntyre (1984, p. 187) defined 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. Liedtka (1998) identified that central to MacIntyre's definition of practice are four characteristics: cooperative human activity; intrinsic goods, or outcomes, related to the performance of the activity itself, beyond external goods like money, fame, and so forth; a striving toward excellence, both in product (the ends) and performance (the means); and a sense of ongoing extension and transformation of the goals of the practice."⁶

In Book 2 of *Nicomachean Ethics*, Aristotle

remarked that virtue is concerned with passions (which sets the practical situation) and actions (which is how to respond to them). For Aristotle, in all passions and actions, there are two opposite vices (a defect and an excess) and the intermediate or virtue (which is relative to us). This concept of the intermediate or moderation is at the heart of virtue theory: we must respond to a particular situation in the right time, in the right way, in the right amount, and for the right reason. In his *Nicomachean Ethics*, Aristotle compared the concept of moderation with an artistic masterpiece which you could not take away from (defect – too little) or you could not add to it (excess – too much).⁷ Apart from justice, every other virtue has the two extreme vices: the defect which is usually easily identifiable as an opposite, and the excess which is a vice that closely resembles the virtue. For example, if we consider the virtue of order, its opposite is disorder, and the other extreme is working non-stop. For courage they are cowardice and foolhardy; for generosity, stinginess and extravagance, and so on.

At the end of Book 1 in his *Nicomachean Ethics*, Aristotle made the distinction between intellectual and moral virtues. Moral virtues are those that are concerned with the will and can be acquired through regular practice; intellectual virtues are acquired through learning. The moral virtues in fact have a significant influence on the intellectual virtues, so that the development of the moral virtues takes a priority. Among the virtues, those that are fundamental in the sense that all other virtues are closely tied with them, are the cardinal (from the Latin “cardo” which means hinge) virtues: prudence or practical wisdom, courage or fortitude, self-mastery or temperance, and justice or fairness. Courage is the ability to face and to overcome difficult situations. It is the power to act even when we are afraid. Temperance or self-mastery is the ability to have control over our tendencies to laziness, complacency, and reluctance to fulfill our responsibility. It is the virtue that relates to enjoying things in moderation. Justice describes a situation where one constantly give others what is their due so that they can fulfill their duties and exercise their rights, and at the same time,

one also tries to see that others do likewise. Prudence can be equated to good judgment and right reasoning about people. Among the cardinal virtues, Pieper (1966) reasoned that prudence is the most important since it is necessary in order to practice the other cardinal virtues. He argued that prudence is the first of the cardinal virtues since none but the prudent person can be just, brave, and temperate, and the good man is good in so far as he is prudent. Naughton et al. (1996) also supported this view in that prudence or practical wisdom is the central virtue since it is able to order the various organizational good together in one concrete act. The prudent person has a grasp of the complexity of the business environment and instantiates the various moral virtues in a particular situation. It is a key virtue since it both does the good and does well simultaneously. MacIntyre (1984, p. 155) also illustrated that prudence is a central (intellectual) virtue without which none of the moral virtues can be exercised (see also Woodward and Miller (1994), Hutchins (1995), and Putman (1995) for more on prudence as the central virtue).

MacIntyre (1984) also distinguished between internal and external goods or goals. Internal goals are unique, intangible, unlimited in supply, and have intrinsic value. Internal goals require an ability to recognize and to exercise virtues. Examples of internal goals are essentially the virtues: prudence, self-mastery, courage, justice. External goals, on the other hand, when achieved are always some individual's property. Examples of external goals are profits, honor, fame, prestige, and material wealth. Within a virtue theory framework, the pursuit of internal goals are the driving force for external goals (Figure 2). If a firm were to pursue an external goal of maximizing profit, they would be constraining themselves. However, if internal goals are pursued, then the level of profits that can be realized becomes unconstrained since internal goods are not limited in supply. So, if firms wish to maximize profits, they should be ethically-driven (that is, the pursuit of internal goals) as opposed to profit-driven (that is, the pursuit of external goals), since the former drives the latter.

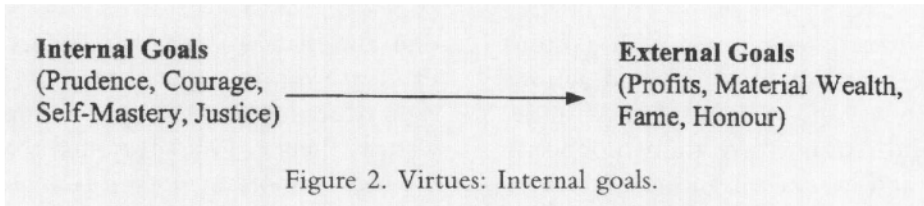


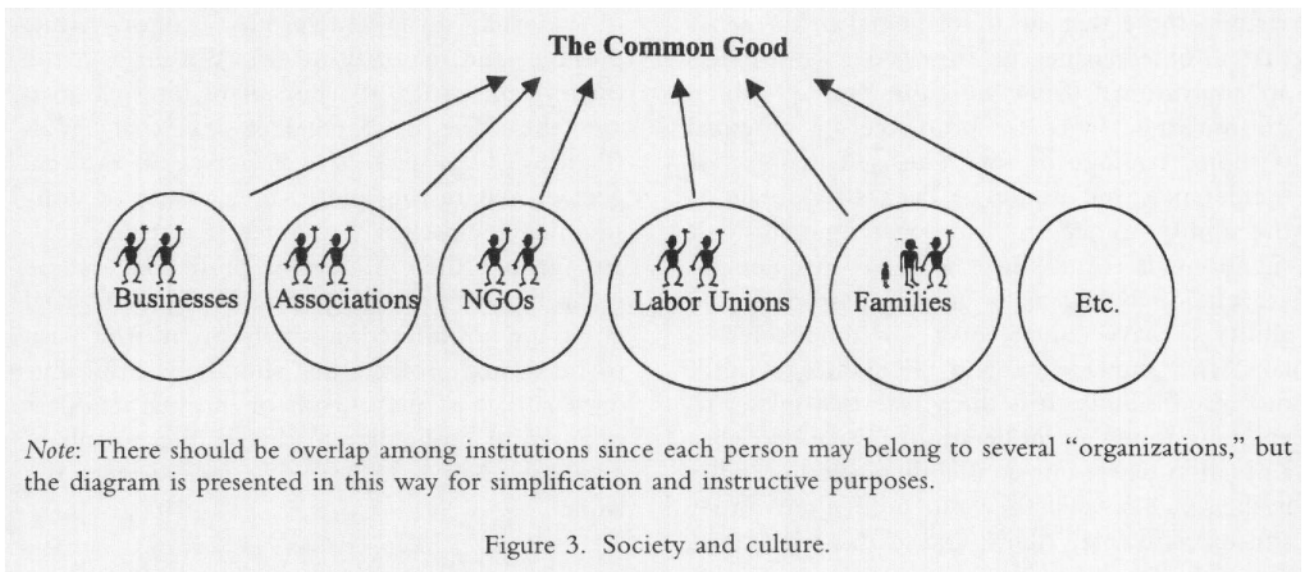
Figure 2. Virtues: Internal goals.

The common good

Society and culture are made up of heterogeneous groups and associations whose activities are organized by a system of institutions (familial, communicative, economic, judicial, political, administrative, educational, etc). Society can be thought of as an organism – the highest level of organization whose various functions are fulfilled by certain specific “organs” or institutions (Figure 3). If, as currently the case of social reality, these organs do not function properly or do not work in harmony, crises evolve. In other words, if these institutions or organs have different and self-interested goals that are not in line with a common goal or what is called the common good, then there are enormously negative consequences to society (unemployment, poverty, crime, economic exploitation, social dislocation, political domination, etc). But, all these institutions do have something in common – it is people that make up these institutions. This is precisely the reason the corporation can be considered a moral entity.

Although, along with its many synonyms (public good, public interest, common good,

general welfare, national interest, etc.), the common good is frequently used in many forums, few studies exist that define it an explicit way. The common good has been the central ethical task and one of the most controversial issues of every age, every nation, every business, and every individual. It has occupied our attention from the times of the Greek philosophers to the present times. Within the last decade, there has been renewed interest in the notion of the common good in the social sciences (see for example, Baston et al., 1999; Raeder, 1998; Bennett, 1997; Kangas, 1997; Martinson, 1997; McNellis, 1997; Murphy, 1997; Stebbin, 1997; Walford, 1997; Wesley, 1997; Kelly, 1995; Goodpaster and Atkinson, 1992; Mahon and Mc Gowan, 1991). The common good is a concept that is difficult to define, but it can be recognized when it is practiced and better still when it is not present.⁸ For example, companies that have adopted work/life strategies and programs (elder-care assistance, flexible scheduling, job-sharing, adoption benefits, on-site summer camp, fitness centers, removing many work rules, allowing people to set their own work goals and hours, providing technology to



Note: There should be overlap among institutions since each person may belong to several “organizations,” but the diagram is presented in this way for simplification and instructive purposes.

Figure 3. Society and culture.

allow work from home and other sites, etc.), promote the good of society.

How then can we define the common good? The common good is to advance the good of the individual human person and human family. It is an order of rights and duties based on justice, and a social situation such that the opportunities for every person in society to develop himself or herself to the full (materially, culturally, spiritually, etc.) are maximized (de Torre, 1984, p. 22). This notion of the common good is further elucidated by Finnis (1999, p. 155) definition of the common good as a set of conditions which enables the members of a community to attain for themselves reasonable objectives, or to realize for themselves the value(s) for the sake of which they have reason to collaborate with each other (positively and/or negatively) in a community. This definition neither asserts nor entails that the members of a community must all have the same beliefs, values or objectives. The common good is therefore achieved when each person contributes to the whole in accord with his or her abilities and with the awareness of the legitimate needs of others. It arises from the fact that we are all called to form a social community in which persons recognize the responsibility for themselves as well as for others. The development of any community, be it business or society, comes about through the contribution made by its members, and we would never be able to achieve our personal end if we did not contribute to the good of everyone else. The personal cooperation of each individual in the common good then takes on the character of an unavoidable ethical obligation.

Today, there is a tension that pits the premises of the Western notions of meritocratic individualism (the paradigm of post-Enlightenment democratic liberalism) against the communitarianism notion that attempts to retrieve the idea of community as a necessary foundation for modern social life (Donohue, 1996). Donohue further argued that the idea of the common good provides a conceptual organizing category for mediating the excesses of individualism or communitarianism. It serves as a way of construing the relationship of the individual to a society so

that the limits and possibilities of both individual and communal well-being are preserved, and in which the appropriate responsibilities and obligations that exist among individuals are clarified and articulated. He further noted that the common good shares with liberalism the impulse to affirm and extend the ideal of individual freedom to its appropriate limits; and with communitarianism it shares the conviction that only in the context of community can the fullest possibilities of the individual be realized. Raeder (1998) addressed these issues in her exposition of a Hayekian perspective on communitarianism. Solomon (1992) endorsed this position in stating that for Aristotle, life was supposed to fit together in a coherent whole (the holistic idea that individuals, families, and businesses are first of all part of a larger community). According to Aristotle, one has to think of oneself as a member of the larger community (the Polis), and strive to excel to bring out what is best in ourselves and our shared enterprise. Solomon (1992) further noted that what is best in us – our virtues – are in turn defined by that larger community, and there is therefore no ultimate split of antagonism between individual self-interest and the greater public good. Our individuality is socially constituted and socially situated. Raeder (1998), Bennett (1997), Giddy (1997), and Etzioni (1996) responded to some of the issues in the debate about the fundamental question of the proper balance between individual liberty and commitment to the common good.

From the above, we can see that the common good cannot be viewed as the mere sum of individual goods which is rooted in traditional thinking (e.g., utilitarianism, social contract theory, etc). Once the atomistic individual is taken as an isolatable unit, then the individual and the community become pitted against each other in an irreconcilable tension. Individuals, corporations, and society are not separate entities like atoms that collide with each other. They are part and parcel of an ontological whole. Rosenthal and Buchholz (1998, p. 56) viewed the self as inherently an aspect of an ongoing social process which is a radically different way of understanding the self that denies the atomistic view. According to this view, in the adjust-

ments and coordinations needed for cooperative action in a social context, human organisms take the perspective or the attitude of others in the development of their conduct. In this way, there develops the common content that provides a community of meaning, such that communication can take place because there is a common basis of understanding. Selfhood then comes about through a social context as it involves the ability to be aware of oneself as an acting agent within the context of other acting agents. The authors further argued that not only can selves exist only in relationship to other selves, but no absolute line can be drawn between our own selves and the selves of others since the origins and foundations of the self are social or intersubjective.

Virtues and the common good

Someone once said that hard work without some purpose or ideal make life an endless drudgery. But, that same hard work carried out for some passionate ideal, turns life into a grand sporting adventure. Contrary to the popular saying that virtues are their own reward,⁹ one cannot properly talk about the theory of virtue without reference to some goal or good, in this case, the common good. After all, virtues are those qualities which enable people to direct their behavior toward some goal. In his *Nicomachean Ethics*, Aristotle remarked that the chief or ultimate good for human beings is "eudaimonia" which is translated as "happiness," but is better understood as human flourishings or potentialities (living and doing well) which are achieved by promoting the common good. MacIntyre (1984), in his chapter on "Aristotle's Account of the Virtues," also noted that the virtues are precisely those qualities the possession of which will enable an individual to achieve "eudaimonia" (and the lack of which will frustrate his movement toward the "teleo" or goal) and which would contribute to the realization of the common good. A flourishing life then consists in virtue or excellence in human activity. In a *Newsweek* cover story, Woodward and Miller (1994), in talking about the politics of virtue,

remarked that it is the cultivation of virtue which makes individuals happy; the result is a good person, a responsible citizen and parent, a trusted leader and possibly even a saint. They concluded that without a virtuous people, society cannot function well, and without a virtuous society, individuals cannot realize their own or the common good. The former president of the University of Chicago, Robert Hutchins (1899–1977), in making a case for the aim of general or liberal education in 1938, stated that virtue is that which makes a man good and his work good too; as virtue makes a man and his work good, so also it makes him happy, so also it makes him a good citizen (Hutchins, 1995).

The intimate link between virtues and the common good is that both have the underlying philosophy that people are social by nature and cannot be understood apart from the larger community in which they participate. Naughton et al. (1996, p. 210) underscored this point when they noted that people desire a community of work where they can develop skills and talents that contribute both to the organization as well as to society. For such a community to exist, businesses must create conditions that provide broad base participation, distribute burdens and benefits, and contribute to the larger community. To create such conditions, people must be virtuous, otherwise they will not trust each other and therefore prevent the possibility of a true community of work. MacIntyre (1984, p. 151) further remarked that an individual member of a community could falter in his or her role as a member of that community by simply failing to be good enough (deficient in the virtues) to such an extent as to render his or her contribution negligible to the common good. It is through the virtues that people are able to develop and to acquire self-control, and direct their efforts toward the realization of the common good (Figure 4). Therefore, by developing a person's natural potentialities through fostering an environment that would provide such opportunities (i.e., promoting the common good), and through the rational control of one's desires (i.e., the virtues) will help to make one a good member of society and therefore promote the good of society.

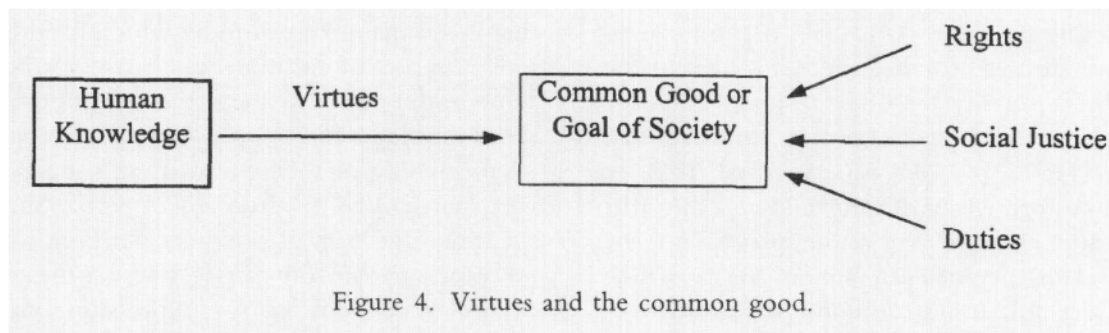


Figure 4. Virtues and the common good.

The common good as the goal of business

Basically, there are two competing visions for the purpose of business.¹⁰ At one end of the spectrum, there is liberalism which focuses on shareholders wealth maximization (the so-called profit maximization model)¹¹ and at the other end, the communitarianism model which focuses on the common good. With respect to the former, the following are some comments from some top American CEOs in response to the issue of whether an organization can operate successfully if its sole quest is for profits (see Watson, 1991, for further details): "Profits are like breathing. If you can't breathe, you can forget everything else that you're doing because you're not going to be around much longer" (Robert Mercer, Chairman and CEO of Goodyear Tyre and Rubber). "It's hard for me even to think about what we do that's purely for profit, because the concept at J&J is so outmoded" (David Collins, former Vice Chairman of Johnson & Johnson). "Profits are one effective way to measure past performance, but they don't drive the enterprise. I think it's a great way to keep score, but I don't think it's the principal motivation" (Phillip Lippincott, Chairman and CEO of Scott Paper). "Profits are not the reason for the existence of a business. This is not to say that profits are unimportant or can be neglected" (John Bryan, Jr., Chairman and CEO of Sara Lee). Bucholz and Rosenthal (1998, p. 168) also argued that profits, in the best sense of the word, are the reward for having efficiently produced something useful; profits are the lifeblood of the corporation and without it, corporations would not survive. The above suggests that profits are no more the purpose of a business than eating is the purpose of life. Profits are a

requirement of any business that has to be met, and in fact, it is part of the operational definition of a business as a going concern. Many business schools, however, still focus on training their students on neo-classical models that maximize profits or shareholder value of the firm without much emphasis on the material well being of society or the more profound dimension of our existence.

Naughton et al. (1996) also argued that the end of the organization is neither the particular good of a stakeholder nor the aggregate of individual stakeholders but the good of the community in which people develop. They pointed out that what is critically missing is an idea of a "community of work" where employees within the organization inspire a common life of desire and action directed toward human development. This "community of work" brings us together to serve a common good that includes, yet goes beyond our own, particular goods. It is not a liberation to autonomy and independence, but to community and interdependence that sets the conditions for human development; this flows out of the social nature of the human person. The authors also developed the idea of a common good model which leaves behind the liberal tradition that has formed the purpose question for organizations since the enlightenment, and draws on the communitarian tradition. They pointed out that both the shareholder wealth maximization and stakeholder models, which are both rooted in philosophical liberalism and express important insights into running an organization, fail to serve as an adequate basis for explaining the purpose of an organization as it does not capture a fuller meaning of living in an organizational community. This line of reasoning is also developed by Stebbins (1997).

In defining what kind of organizational purpose is desired, some underlying idea of life and business is desired in order to understand the purpose of human work, action, and dignity. Watson (1991, p. 103) commented that in Western culture we have inherited an ethic that has steadily elevated the value placed on the worth and dignity of each human life in which humans are not to be used for the service of things but things are to be used for the service of humans. According to this, we have witnessed a transformation¹² which has resulted in the inversion of values in which people (workers) have become the subject of business and economics, where as they are supposed to be the object of work. This inversion of goals or values (profit before people) that resulted from the transformation of businesses, can be linked directly to the gradual break with the universal common (moral) sense in which early societies were more conscious of community rather than of individuality. This issue lies at the heart of ethics. Watson (1991) also added that behind the many abstractions in business, we are human beings and so we need to make the workplace a dignifying human experience. The following, which in essence promote human dignity and therefore the common good, expresses this sentiment (see Watson, 1991): "Human beings are entitled to some meaning in their lives and management has an obligation to provide that within . . . the work environment" (Charles Moritz, Chairman and CEO of Dun & Bradstreet). ". . . when a poor man enters the bank, he must always receive the same courtesy and consideration a rich man would get" (AP Giannini, Bank of America, over a century ago). Watson (1991) further added that in an ideal society, the decent treatment of people supersedes all other concerns. When a person mistreats or is mistreated by another, his humanity is diminished. Interestingly, the principles of the Caux Round Table, which was founded in 1986 and consists of business leaders from Europe, Japan and the United States, are based on two basic concepts: respect for human dignity and *kyosie* – living and working for the common good (Tarantino, 1996 and Carlson and Blodgett (1997).

It is ultimately the dignity of the human being

that is the major criterion by which to judge the real progress of business and society since the value of the person is above that of economic and social development. People's dignity are expressed by the whole of their personal and social activities, particularly in the field of work. Since we spend a large part of our lives working for corporations, then, in the first place, business is one of the main vehicles for expression of work, which reflects the dignity of people. Business is essentially a social organization where people are organized to achieve a common purpose – promoting the common good. By their innermost nature, people are social beings and if they do not enter into relations with others, they can neither live as human beings nor develop their talents. Business then is a natural mean that people can and should use to fulfill themselves in order to reach their ultimate goal. From the above argument, we can conclude that business is, above all, a natural mean by which employees may satisfy their needs and achieve their development as people. The ultimate goal of business then is to provide an environment that would allow and would encourage people to achieve their goals which at the same time promotes and realizes business and societal goals (in other words, to promote the common good). Business then has an ethical obligation to support employees' right to fulfill their self-defined potential. Empirical results show that firms that create such types of environments, have avoided losses due to employee theft, expense account padding, employee sabotage, and litigations. Results also show that it has helped to develop trustful relationships and helped minimize risks of scandals that can destroy companies and careers. Many companies are now realizing that ethically-driven strategies are resulting in a sustainable competitive advantage. Companies that have provided leadership and have benefited from adopting these strategies include Dupont, Hewlett-Packard, Merrill Lynch, Motorola, Unum Life Insurance, MBNA American Bank, First Tennessee Bank, and Eddie Bauer. Companies that have seriously adopted ethically-driven or people-centered strategies have seen clear gains in productivity, sales and profits, customer service, retention rates, reduction

in absenteeism, positive impact on employee morale, increased and timely launching of products (for further details see *Business Week*, 1996; Teal, 1996; and Redder, 1994).¹³

From an ethical standpoint, a hierarchy of goods or values is essential in that ethics try to discover which goods are "real" and which are "apparent" or instrumental, in other words, one needs to look beyond appearances to discover the causes, the reasons, and the bases for goods (de Garay, 1995). In this sense, profits are an apparent or instrumental good, and the problem resides in knowing the place of profits within the set of goods. Naughton et al. (1996) also noted that if organizational goods are properly ordered, they can provide a source of help that set the conditions necessary for human development within an organizational context where the good of the person is recognized to be intrinsically connected to the good of the community. Profits then are not the most important good, but without profits (and other instrumental goods), there can be no other goods and a workplace where people develop has little relevance as the organization would cease to exist. Reell Precision Manufacturing expressed this point as, "we do not define profits as the purpose of the company, but we do recognize that reasonable profitability is necessary to continue in business and to reach our full potential. We see profits in much the same way that you could view food in your personal life. You probably do not define food or eating as the purpose of your life, but recognize that it is essential to maintain your health and strength so you can realize your real purpose (Naughton et al., 1996, p. 211)." When profits become the end of an organization something is radically missing to what it means to be a human organization; an inordinate attachment to the more fundamental good (the common good) prevents an organization from considering or pursuing the more excellent goods of community.

The dynamic economy

Joseph A. Schumpeter is the most illustrious 20th century economist to promote the idea that the

economy is dynamic. Central to Schumpeter's vision of the capitalist economy is the notion of the dynamics of the market process which he regarded as something more than a signaling device for the allocation of scarce resources that serve to guarantee a state of equilibrium. Rather, the market is a sphere of radical change that pushes firms and agents to innovate and the economy to grow and change structurally (Magnusson, 1994). The Schumpeter process starts with entrepreneurs who destroy the static economic circular flow by introducing new combinations or innovations. This process involves disruption of the existing productive framework through the concept of "creative destruction" in which innovative private entrepreneurs impart a dynamism to the economy, a dynamism that is at the same time disruptive or disorderly, and creative or leading to progress (Thanawala, 1994). Schumpeter formulated a theory of "punctuated equilibrium" in which the economy seem to be in an essentially static equilibrium until it is punctuated by some innovation(s) radically changing the nature of production (Langlois and Everett, 1994). This view of the role of the competitive process can be traced back to Adam Smith in both his works "An Inquiry into the Nature and Causes of Wealth of Nations" and "Theory of Moral Sentiments" (Langlois, 1989, p. 10). These works revealed that the main source of wealth is human work or "industry", which is the work of the mind or human ingenuity through his theory of spontaneous orders which explains how complex social patterns arise and function.

Revolutionary changes that introduce Schumpeterian innovations require the development of core competencies. A firm is said to have core competency if it has an advantage in producing goods and developing new products (Acs and Gerlowski, 1996, p. 10). It is in this sense that the virtues can be considered the firm's fundamental core competencies (or what Solomon, 1992, termed the "best" in us). Core competency essentially refers to the organizational strength of the firm that allows it to perform more efficiently and effectively. Firms are more likely to be successful by identifying the deficiencies in relevant (entrepreneurial) virtues and

investing to build those virtues to give them a sustainable competitive advantage. Novak (1999) discussed the relevant virtues of creativity and risk-taking and pointed out that entrepreneurship is the only long-term way to help the poor, to bring them employment, and to give opportunities to people to develop entirely new economic activities. The author warned that corporate leaders should take care that new schemes for corporate governance do not jeopardize their achievements nor distort their one main purpose: to create a new wealth for the whole society, thereby promoting the common good. In fact, a strategy of developing scale and scope translates first and foremost into one of building the appropriate virtues (core competencies). Schumpeter in fact treats innovational activity as an internal factor in economic change (Langlois, 1994, p. 2). The pursuit of internal goods encourages the creative use of human intelligence and ingenuity (the so-called "wealth of nations") – an unlimited and often an untapped resource in organizations which leads to innovation and consequently the notion of unconstrained profits. It's innovative and creative thinkers that have formed and build many top companies. Managers, in particular, should therefore be paid for their work effort and creative ingenuity rather than paperwork exercises.

We can view the traditional neo-classical model of the firm as a zero-sum game that is based on a constrained maximization model – maximize profits subject to production and other resource constraints. Profits under this regime are restricted and this model is static. This model is also based on the assumption of the atomistic view of the individual as the basic building block of society, in other words, society can simply be regarded as no more than the sum of its individuals. This model results in zero-sum outcomes and reflects a distorted reality as it represents situations of pure conflict and describes the outcome of competition simply in terms of winners and losers. Solomon (1992) noted that the concept of competition presumes and replaces an underlying assumption of mutual interest and cooperation. An appropriate model that represents the range of potential reality is a non-zero sum game which is consistent with the

notion of the dynamic economy. Non-zero sum games represent competitive situations where there are opportunities for mutual gain for all competitors. Under the model of the dynamic economy, although no rigorous mathematical relationship can be formulated, profit potential are greater since we are now dealing with an unconstrained maximization problem – a situation in which resources are unlimited since human creativity and ingenuity can be used for innovation, resulting in higher productivity and profit (Figure 5).

Many of the present day efforts in evolutionary and neo-Schumpeterian economics are based on Nelson and Winter (1982) paper which pointed out that the economy is dynamic in character, and dynamic processes are inherently uncertain with regard to their outcomes, which makes it impossible for a firm to approach decision making with the intention of maximising some static function. Drucker's (1998) work on "Innovation and Entrepreneurship," as well as Hamel and Prahalad (1994) paradigm on "Competing For the Future," are examples of the dynamism of the economy. For a review on evolutionary economics, see Atkinson (1995).

Application and implications of virtue theory

Leadership

Our knowledge of the phenomenon of leadership has improved significantly, particularly over the last decade, as contributions from different disciplines have furthered our understanding of the dynamics of leadership.¹⁴ Ted (1995), for example, explained why ethical leadership is a vital part of doing business and the reasons why rejection of ethical leadership on the grounds that it is merely a transient fad is dangerous. Bryson and Crosby (1992) addressed how public leaders can inspire and mobilize others in a shared-power world to undertake collective action in pursuit of the common good. The authors sought to move beyond organization-based thinking to collaborative action that transcends agency boundaries for the common good. Many of the traditional

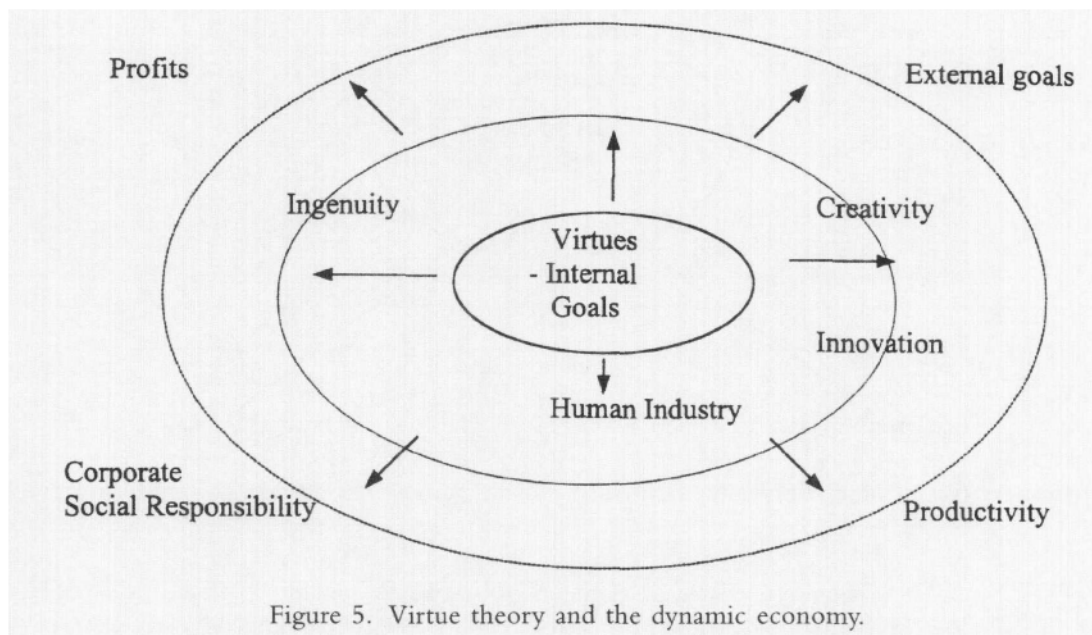


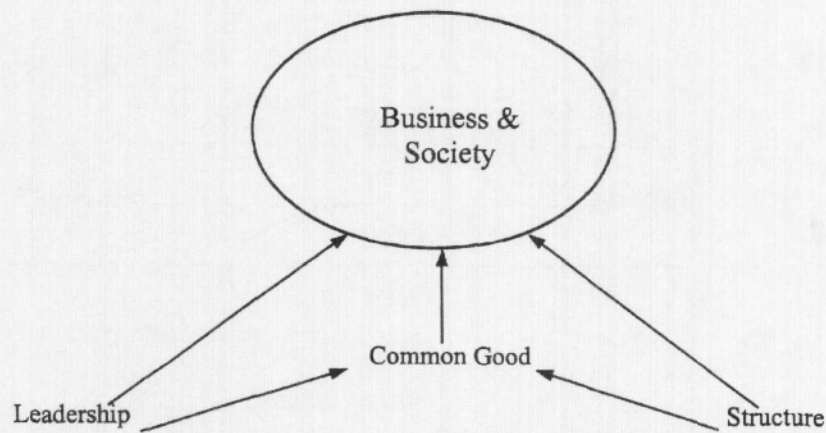
Figure 5. Virtue theory and the dynamic economy.

theories and models, however, have been built on assumptions of human behavior that no longer fit reality. For example, there is now ample evidence that shows the “profit-maximizing” firm acting on the behavioral assumption of individual rationality, may benefit in the short-term, but in the long-term the consequences can be disastrous for society. This paper argues when firms promote the common good through collective rationality, more favorable outcomes for each individual firm results. In other words, all are better off. It is in behavioral assumptions that the crisis of leadership lies. Fortunately, leadership can also re-create or reconstruct organizations and societies.

True leaders, whether in business, government, education or whatever sector, should have a clear vision of the common good and the means to promote it. After all, leaders are supposed to lead people to attain some goal or objective. Under a virtue theory framework, this objective is the common good. Essentially, there is only one type of leadership – “good” leadership. Leadership therefore falls into the realm of ethics. Ethics then is the central task of leadership, in fact, true leadership is ethical leadership. The idea of ethical leadership can be examined and grounded within a virtue theory framework. In such a case, the nature of leadership is a dynamic interaction among members of the

group or organization. Because the person is intrinsically related to the common good and the common good in turn relates to the person, under a virtue theory framework, the leader is also changed. Reconstruction or transformation occurs through the creative use of intelligence which constitutes the essence of the dynamism of the economy. As well, there is no opposition between leader and community as many traditional theories advocate (this is consistent with the theory of social self as advocated by Buchholz and Rosenthal, 1998). The organization or society is regenerated in such a way that ongoing traditional values and structures are preserved.

In a highly simplified model, we can view the essential elements of business and society as a tripod comprising a mission (the common good), leadership, and structure as its “legs” (Figure 6). If any one of those elements is missing, the entire system would collapse. Structures¹⁵ are standards of behavior guided by objective rules and principles so that all members of society understand what is expected of them. In many societies, these structures are increasingly being replaced by subjectivist or relativist ideas. This mission of society or common good, also seems to be a forgotten concept as there is little time for reflection on it. In essence, our leaders and societies have become “vagrants” as we continue to abandon our traditional values and we have lost



Note: The stronger the elements (leadership, structure and the common good) are, the more successful is the society.

Figure 6. Essential elements of business & society.

sight of the common good. What is then required is ethical leadership from professionals and business people at all levels to lead us back to a vision of the common good. In summary, what distinguishes a "good" leader is that he or she is relatively more developed in the virtues and that person has a clear vision of the common good and the means to promote it.

Corporate social responsibility

We can recast the corporate social responsibility (CSR) debate¹⁶ in a virtue theory framework. Corporations practice "justice" when it gives to society what is due to it (that is, to produce goods and services that contribute to the material well-being of society, to provide meaningful life experiences for its employees, to pay dividends to shareholders, to develop new products and technologies, etc.). CSR can be equated to the practice of the virtue of "mercy". The Latin word for mercy is "misericordia" which signifies that which flows from one who is "sorrowful at heart". Mercy is, as we can see from its etymology, a disposition of the heart (*cordia*) that leads us to commiserate with the misfortunes of others as though they were our own. Mercy therefore demands true compassion, and an effective sharing in the misfortunes of others. It is

aimed at relieving the sorrowful of their sorrow. The CSR debate essentially tends to pit mercy against justice. This is certainly a mistaken view for it makes mercy unjust, as though the one meant laying aside the demands of the other, while in fact mercy can be considered the fullness of justice. For example, if someone gives two hundred dollars to an employee to whom he owes only one hundred, he does not act against justice, but, as well as satisfying what is just, he behaves with mercy. It is not unjust to hold a person to a standard of justice, but it may be inhumane to withhold mercy when a person fails to meet that standard (see De Marco, 1996, p. 156, for a fuller discussion). According to C. S. Lewis (1984, p. 266), mercy will flower only when it grows in the crannies of the rock of justice.

We can therefore view CSR as corporate mercy which is aimed at promoting the common good. There is, of course, a distinction between justice and mercy. Justice is rational and measured, mercy is immeasurable. Justice can be commanded, mercy must be freely given. Spohn (1992) made a distinction between "perfect" and "imperfect" virtues; perfect virtues are those that specify precisely one's moral obligation (in this case "justice") and imperfect virtues are those that allow one to choose to whom and when to perform duties (in this case "mercy"). Mercy,

therefore, can temper justice without violating it since the former has greater latitude in conferring benefits. Without the practice of the virtue of mercy, we come in the end to a system of oppression of the weakest by the strongest, or to an arena of permanent struggle of some against others. From an ethical perspective, corporations have a strict obligation to live and to practice justice fully (that is, the practice of both justice along with corporate "mercy" or CSR), and therefore, where possible, to help society solve some of its most pressing social problems. Andrew (1998) gave a detailed discussion of mercy and justice and concluded that mercy ought to be encouraged as it reminds each of us that we are vulnerable to the power of others, and it sensitizes us to the vulnerability of others who stand within our own power. He further argued that the virtue of mercy brings into the world those sorts of actions that break the cycle of revenge and retribution; it promotes harmony in the community, reconciliation, and flourishing; and encourages the resolution of problems.

Conclusion

Virtue theory offers a more appealing, practical, unified and comprehensive theory of ethics in business than traditional approaches. It grounds morality in facts about human nature, concentrates on habits and long-term goals, extends beyond actions to comprise wants, goals, likes and dislikes, and, in general what sort of person one is and aims to be. Traditional theories on business ethics attempt to ground morality in subjective preference or in abstract principles of reasons and focus in decision making directed by principles and rules. Virtue theory provides the sensitivity and appreciation of circumstances and opportunities which are not emphasized in traditional approaches, under which agents cannot properly apply the rules and principles. In any case, agents will tend not to follow those rules unless their virtues offer sufficient clarity of purpose. The pursuit of internal goods corresponds with a state of "being," while external goods corresponds to a state of "having". At the

basis of the interior good or virtues is the fundamental question of "how should I be". It is only under the former state that we can fulfill our true potentialities that cannot be accomplished or satisfied by a state of "having". Virtue theory provides us with a framework in which one leads a fulfilled life.

The virtues demand the repetition of acts in order to grow. For example, if people got up on time every morning (the so called "heroic minute"), they will overcome their laziness from the very first moment of the day. They would also find it easier to be diligent in going about their other duties. Managers, in particular, who habitually act well, will continue to do so when they are confronted with the difficulties and challenges they encounter each day. Human growth and development consist precisely in the exercise of and increase in the virtues as these provide us with the constant encouragement to behave in a more truly human way. However, it is not sufficient merely to want to have virtues, we have to learn how to practise them in order to learn to achieve our goals. Virtues then must be put into practice everyday and in all circumstances in order to acquire authentic habits, and not only the appearance of virtue. Particular situations will bring about a growth in courage, others on increasing trust. The more we practice virtues, the easier we will find them to do next time. Without the necessary virtues, many managers would not know how to stand their ground or take a position especially when they are confronted with ethical dilemmas at work.

Which virtue to pursue would depend on your position in the organization as well as on the type of organization. For instance, prudence is a virtue essential to financial managers because they have to offer opportunities of placing funds with the appropriate risk. A prudent manager, in his work and in dealings with other people, gathers information which is assessed in the light of right standards. The prudent manager weighs the favourable and unfavourable consequences for himself or herself and others prior to taking a decision, and then he or she acts or refrains from acting, in keeping with the decision made. Prudence implies that you do not lose sight of the common good. Virtue theory has wide

applicability and strategic implications not only in business, but in education, sports and almost every other sphere of living. For example, in the case of education, instead of focusing on achieving the highest grades or levels (which is an exterior good or goal), focus should be on the relevant internal goals (industriousness, discipline, etc.). For sports, the focus again should be on the appropriate internal goals rather than on winning, which is an exterior goal. This shed light on a wise and old saying, "it's not about winning, but its about how you play the game." By pursuing exterior goals, one limits his or her performance level, while the pursuit of interior goals through the development of virtues, is the pursuit for excellence and would result in superior outcomes. The implications for business and society for developing strategies (in business, education, sports, etc.) have far reaching consequences in that the primary focus should not be on exterior goals but on developing the necessary interior goods.

The common good needs to become the focal point of the mission of business in a world that is divided and beset by every type of conflict. There is a growing conviction that as business and societies become more interdependent through globalization policies, the common good needs to be emphasized. If individual virtues and integrity are developed, issues such as corporate social responsibility, adverse selection, moral hazard, the principal-agent problems, and the like, will at least take on a diminished role. Donahue (1996) noted that although there is no univocal interpretation of the exact meaning of the idea of the common good, and that it offers no quick remedies for the maladies of contemporary society, it does provide a framework for a very rich and challenging understanding of the possibilities for modern social life in both theory and practice. Richard (1997) concluded that successful organizations in the 21st century will be those that complete their transformation and live out values that support the common good. Corporations that cannot move beyond self-interest will find themselves struggling to survive since an organization's performance is directly related to its ability to tap into its human potential. Naughton et al. (1996) also noted that the

idea of the common good does not provide a micro-blueprint, but rather an orientation or moral compass that directs organizational activity toward human development. Simply stated, the common good for business are those organizational conditions ordered toward human development.

Virtue theory constitutes a comprehensive theory of business and a context in which strategies can be developed to attain the ultimate sustainable competitive advantage. It provides a powerful philosophical and theoretical foundation for the study of leadership. It also develops a theory of (unconstrained) profits, in the sense that if firms pursued internal goals, the profits that can be realized are greater than under the traditional neoclassical profit or wealth maximizing models. We can then conclude that Milton Friedman was correct in saying: the social responsibility of business is to increase its profits, but under a virtue theory framework, of course. In fact, firms do have an ethical obligation to maximise their profits. Therefore, under the neo-classical paradigm, firms are not behaving ethically in so far as they can realize greater profits by adopting a virtue theory philosophy.

There is one "clear and present danger" of the application of virtue theory to business. As a consequence of higher profit potential under virtue theory, it would be tempting to re-focus on the bottom line in the short-term and subsequently return to the traditional profit-maximizing theory which limits profits. Naughton et al. (1996, p. 213) also recognized that there is a danger that legitimate focus on productivity and profitability may habituate businesses to focus only on these goods, and in order to prevent this they should keep in view that their organizations are ordered toward higher ends (the common good), then the focus on gaining profits and productivity can only be seen as means. If virtue theory is put into practice properly, then the greatest revolution would take place in business and society. Virtue theory can revolutionize the way in which business conduct business in that the theory constitutes the ultimate sustainable competitive advantage.

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Notes

¹ Some useful internet sites include DePaul University-Chicago (<http://www.depaul.edu/ethics>), Business Ethics Teaching Society (<http://www.usi.edu/bets/>), European Business Ethics Network (<http://www.nijenrode.nl/research/ecbe/eben/index.html>), International Society of Business, Economics and Ethics (<http://www.nd.edu:80/isbee/>), Applied Ethics Web Site (<http://www.ethics.ubc.ca>).

² For further details of historical and contemporary issues of virtue theory, see the internet encyclopedia of philosophy – <http://www.utm/research/iep/v/virtue.htm>.

³ An excellent survey of selected philosophical literature on virtue theory is provided on the website – <http://ethics.acusd.edu/aristotle.html>.

⁴ Confucius referred to the virtuous person as the "superior man". See Rosenstand (1994, p. 197) for further details.

⁵ I am certainly not contemptuously dismissing "traditional approaches" to ethics which have a significant role to play. Some approaches can be used in tandem with virtue theory since they are not both mutually exclusive. For example, Kennedy (1996, p. 12) prefers to speak about the "theory of virtue" rather than "virtue ethics" because he thinks that the impression has been commonly created that "virtue ethics" should be understood as an alternative to, say, utilitarianism. Braybrooke (1991) elaborated on the issue that both rules and virtues have a place in ethics. Keefer (1996) also discussed the inseparability of these two aspects.

⁶ To illustrate the concept of practice, MacIntyre (1984, p. 188) argued the critical importance of "practice" in determining the relevance of particular virtues and/or the goodness of particular actions by considering the example of a highly intelligent seven-year-old child with whom he wishes to play chess. Although the child has no particular desire to learn the game, he or she does however have a very strong desire for candy (but with little chance of obtaining it). If the child plays chess with him once a week,

the child will get 50 cents worth of candy. Furthermore, if the child wins (which will be difficult, but not impossible), he or she will receive an extra 50 cents worth of candy. This motivates the child to play and to play to win. So long as it is the candy alone which provides the child with a good reason for playing chess, the child has no reason not to cheat (provided he or she can get away with it). However, there will come a time (hopefully), when the child will find in these goods that are specific to chess (the achievement of analytical skills, strategic imagination, competitive intensity, and new reasons for trying to excel and not just for winning on a particular occasion, etc.). However, if the child cheats, he or she will be defeating himself or herself. Of course, the relevance of different virtues will come into play.

⁷ Rosenstand (1994, p. 187) related an anecdote to illustrate this concept of moderation: "How many artists does it take to make a great painting? Two – one to paint it, and the other to hit the painter over the head when the painting is done because there comes a time, if the work is good enough, when more paint would be too much, and the artist may not recognize this moment which will be recognized by the virtuous artist."

⁸ Mahon and McGowan (1991) noted that what constitutes the common good has proven to be an extremely elusive endeavour for both practitioners and academician alike. They further pointed out that definitions of the common good strike us as closely resembling the definition of pornography offered by one of the Justices of the U.S. Supreme Court – "I know it when I see it."

⁹ Of course, this is not to deny the merit of this statement. Lepper and Green (1973) in their study of competence in children found that children intrinsically enjoyed gaining competence in a task while, when external rewards were introduced into the situation, the children enjoyed the task less than they did without rewards. In other words, internal goods (virtues in this case) are uniquely satisfying (MacIntyre, 1984, p. 190).

¹⁰ A distinction is to be noted between the purpose(s) of a particular business and the purpose(s) of the institution of business as a whole. For example, the first might (or might not) make profit central while the latter should work to enhance the common good. A reviewer pointed out that Friedman seems to believe that business as an institution will benefit society if and only if individual businesses do not try to benefit society (although not many business ethicists may believe that). Although individual businesses

may not have the common good as an explicit goal priority, their practice should be congruent with the common good.

¹¹ For the purpose of this paper, we are more concerned with long-term profits and profitability.

¹² Buchholz and Rosenthal (1998, p. 69) attributed this transformation in which the real purpose is lost precisely because of the unending quest for profits, as businesses are encouraged to maximise profits or earn the highest rate of return they can for the shareholders rather than enhancing the material well-being of society and provide meaningful opportunities for a major part of the workforce. In other words, its like putting the cart before the horse, and perhaps this is inevitable given the function of the nature of the economic value system in which business operates.

¹³ Positive economic results are based on the intermediate to long term. Of course, in the short run there are no guarantees. Companies that are ethically-driven and people centered have fallen on hard economic times because of changes in the environment in which they do business are generally short-run phenomena.

¹⁴ For an excellent review of the leadership literature and models, see Bass (1990) *Handbook of Leadership and Business & Society* 37(1), 1998.

¹⁵ There is a distinction to be made between traditional approaches to ethics (which was described earlier in the paper as a set of prohibitive rules and principles) and structure as standards of behavior guided by objective rules and principles. Traditional approaches to ethics are used for the purpose of moral evaluation (which would include intentions, circumstances, consequences, actions, etc.) of human acts. Structures are derived, for example, from the natural moral laws or cultural norms.

¹⁶ See *Business & Society* 37(1), 1998, and Epstein (1998) for a review of the developments in this area.

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A Communitarian Model of Business: A Natural-Law Perspective

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This article compares and contrasts a communitarian view of business with business models under the liberalist and socialist doctrines. Specifically, it attempts to define a communitarian view that is based on natural-law principles. The communitarian view represents the proper balance and order between the claims of liberal and socialist views, and provides assistance to private initiative, while at the same time correcting its abuses and respecting its rights. The theoretical framework developed in this article utilizes a metaethical approach in specifying the underlying philosophical assumptions about rationality, primary purpose, basic unit, supreme value, market characteristics, dynamics of market regulatory mechanism, and juridical order. Today, there is need for a new humanism based on an integral view of the human person. Natural-law communitarianism recaptures the metaphysical certitude of the human person and thereby provides a philosophy of authentic human development. By its very nature, it defines the business organization that incorporates its social purposes.

Motivations and Methodology

There are two motivations for this article. First, there has been little work done in applying communitarian ideas in developing a business philosophy that integrates its social purpose. A growing number of studies have strongly supported the link between corporate social responsibility and financial performance (see, e.g., Margolis and Walsh, 2001; Murphy, 2002; Orlitzky, 2001; and Simpson and Kohers, 2002). However, there has been little work done on

developing a theoretical and normative foundation for corporate moral responsibility that includes the issue of corporate social responsibility. There is also a growing recognition that good ethics can have a positive economic impact on the performance of firms. For example, Joyner and Payne (2002) identify the presence and implementation of values, business ethics, and corporate social responsibility actions and found both a direct and indirect link to financial performance. Noting that the stakeholder theory does not offer a normative corporate responsibility concept, Gonzales (2002) defines a postconventional corporate moral responsibility that must be understood in relation to an economic, legal, and social environment. Gerde (2001) represents one of the first studies to examine the normative underpinnings of an organization's design features and its effectiveness for corporate social performance. This study is built around the concept of the "just" organization that provides normative organization design principles for establishing design dimensions with which to examine corporate social performance. Our current study also develops the concept of social responsibility using a classical definition of justice. It differs from previous studies in that it attempts to develop a normative theory grounded in a natural-law philosophy.

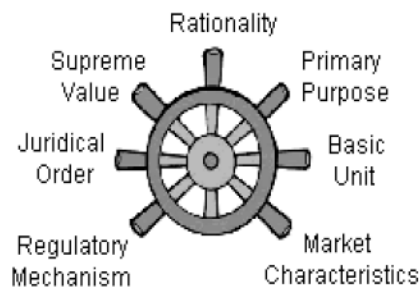
Second, Amitai Etzioni and the authors of the Responsive Communitarian Platform (*The Communitarian Network*, 1991), while stressing the importance of communal integrity, declare that communal values must be judged by *external and overriding criteria* based on shared human experience. Budziszewski (1999, p. 77) points out that such communitarianism has not taken its premises to its logical conclusion in that it needs to declare the external and overriding criteria that its qualified defense of communities requires. Fears (2000) remarks that the best of the Roman emperors (Trajan, Hadrian, and Marcus Aurelius) understood that no society can survive without a set of shared political, cultural, and religious values and that the natural law was the foundation of such a set of shared values. This article, therefore, introduces and attempts to define a communitarianism that is grounded in natural-law principles that provides the external and overriding criteria. The second motivation is therefore to advance the communitarian-liberal debate.

The methodological approach taken is a metaethical one that uses general and applied ethics in systematizing, deepening, and reviving our beliefs about how business ought to be conducted by examining the anthropology of these beliefs. Metaethics examines the nature and grounds of systems of belief and studies the concepts, method of justification, and ontological assumptions (Audi, 1995, p. 274). It proceeds from both an epistemological and a meta-

physical perspective. It is epistemological (focuses on questions about the character of ethical knowledge) in the sense that some concepts under each major philosophical system convey different meanings. For example, the concept of equality is defined as a distribution problem to be solved by the state (collectivist-socialist view). Under the individualist-liberalist view, it means equality before the law and equal protection of freedom of the person and of property; under the natural-law communitarian view, it is the participation of all with equal rights in the direct control of the functioning of the legal system in the service of the economic, social, spiritual, and cultural common good. Consider, also, the concept of freedom, which under radical liberalism is defined as absence of encroachment by individual or society (individual absolutism) and therefore puts the individual before the common good; under the collectivist-social concept, freedom is given its significance by the collective end that defines the limits of freedom for the person (the common good is made the only good). Under a natural-law communitarian view, freedom means self-determination based on individual responsibility in the performance of obligations grounded in the existential ends. The epistemological approach is, therefore, comparative. The methodology also adopts a metaphysical (focuses on questions about the existence and character of ethical properties) perspective by incorporating a natural-law view of human nature.¹

The theoretical framework for this article was developed by de Torre (1984, chap. 2) who critiques both liberalism and socialism as stemming from a philosophy that has lost touch with reality and argues for some balance between these two philosophical paradigms. De Torre (1984), however, did not specify the nature of this balance. This article attempts to address this deficiency. Figure 1 shows the essential interdependent features that form the philosophical framework of the business model. These fundamental thematic features in fact characterize natural-law principles, that is, principles that correspond with human nature. For example, natural-law philosophy expounds that the human person is a social animal (principle of solidarity and the rationality assumption); identifies the primary purpose and supreme value with the existential ends; argues that the basic unit of a society is the family that is one of two natural societies (the state being the other); illustrates that competition is an essential feature of an economy organized on the principle subsidiarity reflecting the desire for gain, which is one of the basic impulses of human nature (market characteristics and dynamics of market regulatory mechanism); and, finally, identifies the juridical order (social justice)—an order based on rights and duties—as the metaphysical roots of society.

Figure 1
Philosophical Framework



Natural-Law Communitarianism

With the failure of socialism in the latter half of the last century, which brought to an end the liberal-socialist debate, trade and business policies emphasized a more liberal type of system. However, this latter system has proved inadequate to cope with the social stresses and strains, particularly in an advanced economy. It was mistaken in thinking that there are natural-economic laws which, if left alone, will automatically bring about the best results for all concerned. For example, we continue to witness the moral decadence of the last two decades stemming from mergers and acquisitions; savings and loan scandals; environmental pollution; and issues in corporate governance, corporate social responsibility, and insider trading. Liberalism has also failed mainly because it could not deal with the human persons who demanded respect for their dignity and enough security to make their freedom worth having. Recent contemporary political philosophy has now focused on the communitarian-liberal debate.²

Communitarianism, whose ideas can be traced back to the insights of Hegel and Aristotle, argues that the collective can have rights that are independent of and even opposed to the rights of the individual and contends that the individual develops and can flourish only within the context of a community. The first wave of the communitarian movement was developed as a critical reaction to John Rawls' work *A Theory of Justice* (1971), which exerted a considerable influence on social and political thought. The communitarian movement seems to have been primarily motivated by deficiencies and negative consequences of the liberalist policies, for example, the negative effects of an overly individualistic concept of self, alienation from the political process, unbridled greed,

loneliness, urban crime, high divorce rates, and so forth (see, e.g., *The Communitarian Network*, 1991). Political theorists Alasdair MacIntyre (1984), Michael Sandel (1981), and Charles Taylor (1985) are strong proponents of this first-wave communitarian view. The second wave of the communitarian movement focused on sociopolitical issues emphasizing social responsibility and was initiated in the 1990s by Amitai Etzioni (1993) and William Galston (1991). For a brief overview of communitarianism, see Werhane and Freeman (1998, pp. 126–28).

The communitarian perspective recognizes (1) both individual human dignity and the social dimension of human existence, (2) that the preservation of individual liberty depends on the active maintenance of the institutions of civil society, and (3) that the communities and polities have duties to be responsive to their members and to foster participation and deliberation in social and political life (*The Communitarian Network*, 1991). Under communitarianism,³ there can be no question of eliminating all government influence from business affairs because the state is responsible for the welfare of its people whose economic lives must be taken into consideration. Communitarianism, however, does not want any more government interference than what is strictly necessary. It leaves the way open for private initiative but is ready to come to its assistance when private initiative fails. It not only protects but positively promotes all enterprises undertaken for the common good. It carefully respects the rights of the individual and of the family, does not try to usurp their duties, and helps them by offering opportunities. It also does not hesitate to correct abuses, by legislation if necessary, when it becomes apparent that private influences cannot cope with them. For a more comprehensive view of communitarianism, see Etzioni (1995, 1993) and Glendon (1991).

Natural-law communitarianism adopts much of the political and accountable communitarian views of Etzioni and others: (1) the basic communitarian quest for balances among individuals and groups, rights, and responsibilities; (2) the recognition of individual human dignity and the human person as a social-political animal; and (3) in addition, both deal with social justice. However, it differs from political communitarianism that asserts that the ultimate foundation of morality may be commitments of individual conscience (*The Communitarian Network*, 1991) in that natural-law communitarianism is rooted in the concept of freedom and in a person's existential end (self-preservation, social fellowship, self-perfection). Natural law can be defined as the functioning of a person's nature in accordance with its own full reality—therefore, that which must mean the fulfillment of the person's life and, ultimately, happiness (Messner, 1965, p. 42). Natural law is therefore the law of a

person's nature striving in its fundamental happiness instinct toward essential self-fulfillment (*eudaemonological*). Perhaps the most classic work on natural law in the last century is that of Finnis (1999). Messner (1965) gives an excellent application of traditional natural-law principles to social organizations, while McLean (2000), Rhonheimer (2000), and Rommen (1998), provide a comprehensive and in-depth exposition of natural law. Neither the individualist or the collectivist patterns of values, nor the liberalist or socialist ideologies founded upon them, have ever in practice been or can ever be fully actualized because human nature does not allow it (Messner, 1965). Significant modifications in theory and in practice have resulted from this observation.

The Philosophical Models

While most of the discussion on the communitarian philosophy has centered around sociopolitical issues, there has been relatively little of the literature either devoted to or applied in the context of business and socioeconomic issues. Today, we are witnessing a philosophical shift in the conduct of business, and there is a need for the reexamination of fundamental assumptions. The natural-law communitarian model of business is more in line with the reality of the human person as a social being and better emphasizes the two major principles of the world business community to improve economic and social conditions: (1) respect for human dignity and (2) living and working together for the common good. These principles were captured by the Caux Round Table that was founded in 1986 and consists of business leaders from Europe, Japan, and the United States (Tarantino, 1996, p. 57). In fact, natural law is the first and most authentic expression of human dignity (see, e.g., George, 1995). With respect to philosophical doctrines, business can be categorized under the liberalist business model (LBM), the communitarian business model (CBM), and the socialist business model (SBM).⁴ Table 1 compares and contrasts seven underlying characteristic features of all three models:

Table 1—Philosophical Doctrines of Business Models

Characteristics	LBM	CBM	SBM
<i>Rationality Assumption</i>	Individual Rationality	Collective Rationality	Collectivism
<i>Primary Purpose</i>	Profits	Happiness/Human Welfare	State Welfare
<i>Basic Unit</i>	Individual	Employees and their Families	State
<i>Market Characteristics</i>	Competition	Coopetition	Cooperation
<i>Dynamics of Market Regulatory Mechanism</i>	“Invisible Hand” (unregulated free market)	Principles of Solidarity and Subsidiarity	State Regulation
<i>Juridical Order</i>	Rights	Social Justice: Order of Rights and Duties based on Justice	Duties
<i>Supreme Value</i>	Freedom	Common Good	Equality

Of course, the SBM has been empirically shown to fail but is included to demonstrate that the CBM is actually a balance between LBM and SBM and avoids the errors of both—the rat race of liberalism and the class struggle of socialism. Each of the characteristics of these models is discussed below.

Individualist or liberalist ideologies have been propounded over the last two to three centuries (Locke, Hume, Rousseau, Bentham, Spencer, Mill). Here, the basic unit of society is the individual (individualism) who is a complete, atomistic entity with absolute autonomy and freedom (liberalism). Such ideologies defend and value the individual and his or her liberty, which highlights one of their strengths. These early ideologies ignore the social nature of the human person; moderate liberals, however, tend to reemphasize the social nature of the human person. Precisely because of this individualistic aspect, one of the main consequences or dangers of liberalism is the potential or total disregard of social justice, solidarity, and the common good. This has prompted some of its thinkers to recapture the value and significance of these concepts within the liberal tradition (see, e.g., Novak, 1989). De Torre (1990) points out another possible danger in that an (extreme) economic liberalism may absolutize the laws of the market so as to practically rule out all government intervention.

The moral root or anchor of liberalism is reflected in an effective capitalism that creates wealth and eliminates poverty (the way to fight poverty is to create wealth). However, since the early 1800s, there arose a system of oppression,

injustice, and exploitation of people under liberalism. This led to the radical reformation or revolution of socialism led by social reformers such as Saint Simon, Cabet, Fourier, Owen, and Proudhon. However, socialism also provided a distorted view of the human person by absolutizing the social nature of the person. The main error of socialism is the suppression of human freedom, personal responsibility, and initiative with the consequence that the state monopolizes all the means of production and distribution. It is important to note at the outset, that any criticism of the liberalist and socialist ideologies does not imply an indiscriminate and wholesale rejection of all their endeavors and achievements. Indeed, there was a genuine and justified reaction against obsolete systems and institutions in social, economic, and political life—absolutism, the police state, mercantilist regimentation—under the liberalist movement. The socialist movement should be understood as a reaction against the failure to carry out vital social functions, which was a consequence of the individualistic forces.

Rationality Assumption

Under the SBM notion of rationality—*collectivism*—the individual person renounces his or her individuality and integrates himself or herself fully into the social process and becomes the *collective person*. This extreme form of rationality is directed not to the benefit of the individual business or community (which are in fact swallowed up by society), but to the totalitarian state. The concept of individual versus collective rationality can be illustrated using the classic case of the prisoners' dilemma known as *the tragedy of the commons*. The commons refer to a pasture of land that is a public-good resource used for feeding cattle belonging to different cattle herders. Each herder wants to maximize the size of his or her herd. If it is (individually) rational for one cattle herder to advance his or her interest by allowing the cattle to use as much of the common pasture as possible, then it is rational for all herders to do so. Of course, if every herder does so, the commons would be overgrazed and everyone would suffer. However, if every owner were to behave cooperatively, then all would benefit and be better off than if they were to pursue maximizing his or her individual piece of the pie.

The above paradox, which game theorists refer to as the *social trap*, is a situation where individual rationality may lead to short-term gains, but, in the long run, the consequences can be disastrous for all. Collective rationality leads to a more favorable outcome for each individual owner. We witness many real-world examples of the tragedy of the commons—overfishing; pollution; accessing common underground petroleum deposits; price and trade wars;

countries' sovereignty; and many problems resulting from untradable, insecure, or unassigned property rights. Arjoon (1998) also identifies the distinction between the growing skepticism of narrowly defined models of self-interested economic man (rational economic man) and collective rationality, which is a more psychologically informed concept stressing peoples' capacity for moral commitments (socioeconomic person). Ambrosio and Toth (1998) also distinguish between rationality in the economic sense (rational maximizers) and in the natural-law sense (value rationality). In the latter case, rationality concerns both the choice of good ends and the means to pursue those ends. The purpose of value rationality is to determine what is good or bad, right or wrong. Economic rationality consists of a utilitarian calculus of the greatest good for the greatest number, a cost-benefit analysis based on narrowly defined self-interest and an impoverished view of human nature; it discounts the fact that most people respect the moral claims of others.

Throsby (2001) distinguishes between the economic impulse, which corresponds to individual rationality or behavior, and the cultural or social impulse, which corresponds to collective rationality. The economic impulse reflects individual goals and represents self-interested individual producers seeking to maximize their profits. In the standard neoclassical model of the economy, given the initial distribution of income, markets exist to enable mutually beneficial exchange to occur, and, according to the theory of general equilibrium, such markets will lead, under certain assumptions, to the maximization of social welfare, defined only in terms of the individuals who comprise the economy. The socioeconomic person, on the other hand, reflects the collective rationality and derives from the nature of society and culture (collective desires of a group).

Primary Purpose

Classical-business economists understand that the economic process is bound up in the genesis of wealth. They define wealth as "all useful and agreeable things that possess exchangeable value" (Mill, 1848). Neoliberal models consider profits and the law of the market as its only parameters, to the detriment of the dignity of and the respect due to individuals and peoples. The serious omission in contemporary business and economic theory is the human person. When one inquires into the purpose of a business, the fundamental question concerning the meaning of human life (What is the human person for?) must be answered, because it is the human person who works in a corporation that makes it a moral entity. The root error of both liberalism and socialism is that their driving force is fundamentally materialistic, and, consequently,

the spiritual realm is neglected by or divorced from the economic or materialistic. Both philosophical systems share the underlying assumption that reduces the human person to the *economic person* and therefore fail to recognize the person's full nature and dignity.

Watson (1991) shares many insights and experiences from America's CEOs, which reveal that they are not in agreement with the utilitarian concept of the shareholder-wealth-maximization model. Profits are in fact a means or secondary goal of a business (see also Arjoon, 2001⁵ and Pfeffer, 1998). Argandoña (1994) also asserts that profit cannot be the singular goal of a company but is a measure of corporate efficiency. However, with the fixation, misplaced emphasis, and obsession on the bottom line, management is forced to engage in *short-termism*, responding to the shortsightedness and immediate satisfaction of shareholders' financial appetite. Many businesses compromise or sacrifice their long-term survival and greater contribution to the common good by seeking out short-term benefits as *modus operandi*. It is analogous to killing the goose that lays golden eggs.

Recently, many firms have, at least in theory, adopted a stakeholder vision of organizational purpose. This model is based on a liberal notion of rights in which different stakeholders (suppliers, customers, employees, and so forth) have a stake or claim on the business. In practice, there has been difficulty in resolving the conflict of rights and balancing the interests of the various stakeholders. The CBM provides a solution by identifying a hierarchy of values. Watson (1991, p. xv) expressed this point when he said that "those persons and organizations that aspire to serve worthwhile purposes are ultimately the most profitable and that the ordering of aspirations to embrace people, products, and profits, in that order, are the most competitive and thus the most successful." Tim Crull, of the Carnation Company, also reflected this important truth when he mentions, "the company is not run only for its stockholders but for its customers and for its employees. It's really a three-legged stool. And if all three aren't equally protected and considered, it's not going to work" (Watson, 1991, p. 17).

So, instead of focusing on profit, the CBM would advance the argument that it is better to focus on what drives profit, that is, the employees. Argandoña (1994) also advocates this point in that the goal of a company ought not to be profit alone but to satisfy the needs and contribute to the development of the people who form part of the company through the efficient production and distribution of useful goods and services. Under the CBM, it is neither the customer nor the shareholder that is first, but it is the welfare of the employees and their families. Simply put, if employees are happy, they will be productive

and work harder and smarter. In some sense, many firms recognize this when they pay lip service in asserting that employees are their most important asset. Some writers have also argued this from a risk perspective: It is the employees that are the ones most at risk because shareholders can spread their risk through diversification (see, e.g., Buchholz and Rosenthal, 1998). As Donald Lennox, of Navistar, graphically puts it, “and while the stockholders might have their money in the company, the employees have their lives in it. And it is these employees and their motivated efforts which are ultimately needed if success is ever to be achieved” (Watson, 1991, p. 18). Providing an environment for employees to achieve their own goals as well as that of the firm, results in the ultimate sustainable competitive advantage because such a practice is unique and unlimited in scope and so difficult to imitate or copy. In such an ethically charged environment, people would not want to leave and so the CBM would address one of the main human resource problems—that of retaining the right employees. We can conclude here that the principal aim of business does not consist merely in the increased volume of goods produced, any more than it consists of mere profit, but it is directed to the service of people in their totality, taking into account their material needs and the requirements of their intellectual, moral, spiritual, and religious lives.

Under the CBM, the concept of happiness⁶ is a state of being, not a state of having (e.g., having wealth, health, power, prestige, honor, recognition, approval, and so forth). Even the Greek philosopher Epicurus (341–270 B.C.), to whose roots utilitarianism could be traced back, came to admit that although they may not be the most intense, the highest and most lasting pleasures are spiritual and not physical ones, and as such, belong to the sphere of the spiritual order. Charles Watson summarizes these ideas in the following phrases,

A certain amount of gratification can be gotten from having possession and from consuming. But these pursuits do not produce the most satisfying happiness people are capable of reaching. If relied upon exclusively they can unnecessarily constrict one’s human possibilities.... He may possess these things, but that is not the same as enjoying them.... All you gain is the knowledge you are rich.... Being miserly and hoarding material objects or pursuing wealth just to satisfy the self is debasing to what one could be as a human being. The constant searching and calculating how best to serve one’s self and to get what one wants in the form of wealth and possessions keeps that person from seeing what else is possible, from doing interesting, exciting, worthwhile things, and from truly living. (Watson, 1991, pp. 36–37)

Basic Unit

One of the characteristics of the CBM is its emphasis on family policies. Why focus on families? Communitarians recognize that the health of any business or society can be measured by the health of its families. The family is the most fundamental unit of society and is the seedbed of human enrichment. It is the first school of social virtues that are the animating principles of the existence and development of business and society themselves. It is from the family that future business leaders are nurtured and engendered with the necessary skills and characteristics to participate and to contribute actively in the life of business and society. It is in the family environment that one develops obedience, a concern for others, a sense of responsibility, understanding, mutual help, and many other virtues. Families also represent the potential flow of future wealth for business and society, so it makes economic sense to invest in families, because it is critical for long-term economic survival and performance. Any business or society that does not consider the family in its priorities and fails to see other priorities in its natural and subservient relationship to it is condemning itself to its own demise.

The CBM therefore, takes into account the employee within the context of his or her family as the basic unit. The LBM considers the former only, and under the SBM both the individual employees and their families are swallowed up into the state.⁷ The CBM recognizes that the basic cell of a society is the family, and in order to develop strong businesses and strong societies, emphasis must be placed on developing the family. The CBM fosters the conviction that the good of the family is an indispensable and essential value for business and therefore focuses on family policies that contribute to the life and development of the family. It therefore advocates profamily measures such as a family wage, work-life programs (such as flexible work hours, work from home, bring your kids to work, day-care center, and so forth), educational subsidies, and maternity and related benefits. Unless regulated by law, such measures should be determined by each individual firm, given its own circumstances and resources; for example, its competitive position. The CBM takes a longer-term view of business in placing emphasis on supporting and developing the family. In this way, the firm can develop trust and loyalty from its employees because it makes the concerns of its employees its own concerns.

Market Characteristics

The LBM and SBM market characteristics of competition and cooperation respectively represent two extreme ends of the spectrum of market characteristics. Competition can be characterized by what game theorists call *games of pure conflict* in which economic agents or players are strictly opposed to each other, and the gains of one are balanced by the losses of the other. At the other extreme, cooperation, all players gain or lose together as all have a common interest. In practice, purely competitive situations do not always bring about the social benefits of higher output, lower prices, and optimum efficiency. However, there is no way to eliminate all competition and maintain free enterprise. Competition keeps the economy flexible, dynamic, progressive, resourceful, innovative, and efficient. It has by extension a social function of bringing about the best possible fulfillment of the social order or end of the economy: It is an ordering principle of the social economy (Messner, 1965). Also, it is an indispensable means of arriving at the just price or wage in the market. There can therefore be no question of abolishing competition; however, it should be supplemented with cooperation.

In practice, most competitive situations involve *coopetition* (see Table 1), which is a combination of competition and cooperation, in other words, cooperation among competitors. Game theorists refer to such situations as *nonzero sum games* because there are opportunities for mutual gains for all competitors. For example, much cooperation is already practiced by businesses: against price slashing, depletion of natural resources, false advertising, joint ventures, strategic alliances, and mergers. Usually, cooperation may be secured using legislation, or it may be voluntary; for example, in the case of self-regulation. Coopetition⁸ offers a theory of value, that is creating value by recognizing the interdependence between business and its various stakeholders in order to develop new markets and expand existing ones and capturing value through competition (Brandenburger and Nalebuff, 1996). Essentially, coopetition can be considered cooperation in a competitive environment, usually with the aim of achieving a win-win payoff. The main point here is that cooperation and competition are not mutually exclusive; there can be cooperation for the sake of legitimate competition. Economic cooperation means the free exchange of goods, which, in fact, is competition. Therefore, in this sense, economic cooperation can only take the form of competition (Messner, 1965). In fact, more cooperation is needed among companies competing for global markets, as we are witnessing today. Companies do not lose their freedom while voluntarily cooperating.

Arjoon (1999) points out that sustainable and meaningful cooperation can be achieved by the practice of the appropriate virtues, which would make the basis for successful cooperation possible. Solomon (1992) emphasizes that the role of virtues in business is to guide and to motivate behavior for the betterment of the community because our individuality is socially constituted and socially situated. Mintz (1996) also reinforces the point that virtues facilitate successful cooperation and enable the community to achieve its collective goals. Competition therefore does not replace but presumes an underlying assumption of mutual interest and cooperation. *The Encyclopedia of the New Economy* (2002) points out that cooptation helps markets grow faster and helps focus scarce resources. Cooptation often involves companies agreeing not to compete in a particular market while they compete in others, for example, the alliance of Sun, IBM, Apple, and Netscape in supporting the open programming language Java to increase market power. Another example is that of American Airlines in opening its Sabre reservation system to competing carriers.

Dynamics of Market Regulatory Mechanism

In practice, the so-called invisible hand or unregulated free markets under the LBM tend toward monopolistic structures, and, consequently, there is need for antitrust laws to limit concentration of economic power. We can also witness other consequences of unregulated markets; for example, the issue of wages. Wages and other remunerations should not be solely determined by the state of the market; it must also be determined by the laws of justice and equity. The payment of a sufficient wage to employees for a dignified living for themselves and their families generally constitutes a concrete means of verifying the justice of the whole socioeconomic system, because remuneration for work is a practical means whereby the vast majority of people can have access to those goods that are intended for common use (Pope John Paul II, 1981, p. 46). In addition to the state of the market, wages must be related to the contribution of the employees to the firm, the needs of the employees and their families, and the competitive positions of firms. Many countries have, in fact, adopted minimum-wage requirements, recognizing that the market cannot and should not be the final arbiter of values. On the other hand, under the SBM, state regulations or regimentation stifle economic initiative, freedom, and innovation.

Under the CBM, the principles of solidarity and subsidiarity regulate the dynamics of the market and are ways to organize a business or organization that manifest the dignity of the human person. By virtue of the first, each and every person is obliged to contribute to the common good of society at all lev-

els; by virtue of the second, the state should never substitute itself for the initiative and responsibilities of businesses at the level at which they can function. The principle of solidarity is manifested by the distribution of goods and remuneration for work, and also presupposes the effort for a more just social order where tensions are better able to be reduced and conflicts more readily settled by negotiation. This principle recognizes the dynamic interdependence among firms, industries, and other communities. The principle of subsidiarity can be simply stated as what can be done by the smaller body should not be done by the larger one, as this would stump private initiative. In other words, a community of a higher order should not interfere in the internal life of a community of a lower order, thereby depriving the latter of its functions, but rather should support it in the case of need and help to coordinate its activities. Cases for privatization can be defended on the principle of subsidiarity.

The principle of solidarity will lead firms to promote the good of all even if by so doing the individual advantage of some may be affected; the principle of subsidiarity will lead firms to respect and protect the rights of employees. The principle of solidarity stresses the common good, duties, cooperation, and equality, while the principle of subsidiarity stresses the individual person, rights, privacy, and freedom. Both principles are however, intrinsically interrelated, and the balance between both sets the limits for excessive intervention (both within the firm and by the state). The SBM overstresses solidarity with the consequence of stifling personal freedom and initiative. The LBM overstresses subsidiarity or self-help and results in selfishness. The primacy of the common good demands that both principles of subsidiarity and solidarity be balanced and kept inseparable. In general, the current market philosophy of the Western world has worked well because of regulations (including self-regulations). However, over the last two decades, we have witnessed a deteriorating trend in ethical practices. Also, many firms adopt corporate governance structures that tend to emphasize a socialist type of philosophy that overstresses solidarity and therefore stumps individual initiative and inhibits creativity. A management practice that is based on the principle of solidarity encourages employees to work more productively and become more involved and committed, because they have more control over their work. Subsidiarity also has a great impact on performance, because it requires eliminating layers of managerial bureaucracy whose primary responsibility is simply being a watchdog in overseeing the work efforts of employees. Self-managed teams are examples of applying the principle of subsidiarity to basic elements of organizational design.

It is worthwhile to make a distinction between the notion of empowerment and the principle of subsidiarity. Empowerment is the idea that management passes the power to employees at a lower organizational level—a power that can be taken back at will. Ownership, control, and responsibility remain at the top. The principle of subsidiarity holds that decisions are best made as near as possible to the persons or moral entity they will affect and encompasses the idea of devolving powers to the lowest appropriate levels. It is based on the notion of justice; specifically, it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry, and so it is better to leave power where it belongs and where it can be best exercised. Central to the concept of subsidiarity is the notion of trust—willingly surrendering power rather than delegating it and structuring organizations to institutionalize and reinforce trust. A culture of subsidiarity is therefore not to manage but rather to enable, facilitate, interpret, create meaning, and develop through trust (West-Burnham, 1997).

Juridical Order

Rights and duties are stressed by the LBM and SBM respectively. Rights and duties are in fact correlative terms; in other words, a right is the reverse side of a duty and vice versa, and both are limited by each other. For example, because a corporation has rights, other firms have the duty to allow that corporation whatever rights are entitled to it. Take for instance, an approach to the problem of pollution—the sale of pollution rights—that is a license that gives the firm a right to pollute up to some specific limit during a particular period of time. Other firms have the duty to respect those rights, which the firm may freely trade in an organized market. On the other hand, the CBM focuses on social justice, which incorporates rights and duties based on justice. In essence, justice embodies the concept that each be given what is due to him or her. For example, under a pay-for-performance scheme, a manager who has consistently surpassed his or her target objectives has a right to be paid extra compensation, and the firm has a duty to provide the compensation. Perhaps the most controversial business issue to fall under the juridical order is that of corporate social responsibility. The CBM would explicitly recognize that firms do have a corporate social responsibility to show care and concern for others, which they argue is not an option, but an obligation based on social justice. In other words, it is what the virtuous corporation would do, and communitarians would argue that only extensive involvement in public affairs by the virtuous corporation can remedy many of the problems that business and society face.

Today, justice has become something impersonal and cold, rigid and harsh—chiefly a legal affair. Its classical definition⁹ is “to give to each what is due to him or her.” From its definition, justice is directed from oneself to others and consists in giving. Deprived of its personal content, its essential orientation is now reversed. It is not uncommon to think of justice as something society demands of us, or holds against us, expressed in terms of laws, which limit individual freedom and punish infractions. This kind of justice can be referred to as *strict justice* as opposed to the concept of *full justice*. In the latter concept, justice is understood to be generous and spontaneous, supple and adaptable to individual circumstances, oriented to others, and able to be extended beyond the strict precept of what is required by law. If practiced in this manner, it eventually leads firms to assume public functions that go beyond their legitimate concern for their own particular interests and therefore will be performed with a view to the common good. The object and principal effect of this type of justice is to create mutual trust and friendship among all stakeholders (see Pinckaers, 1998, for a more detailed discussion on this concept of justice). Corporations practice strict justice when it gives to society what is due to society; that is, corporations are required to efficiently produce goods and services, pay dividends to shareholders, develop new products and technologies for its survival, provide meaningful life experience for its employees, and so forth.

Corporations practice full justice when full justice transcends the demands of strict justice without violating those demands; in other words, the former presupposes the latter. For example, payment of a just wage adheres to the concept of strict justice. Now, suppose the firm is in a position to pay extra for a particular period, this does not violate strict justice (unless it is at the expense of others, say, the firm’s own survival) but brings justice to its fullness. Strict justice then can be measured and can be commanded, whereas full justice is immeasurable and must be given freely. Full justice can be described as corporate social responsibility in that it has greater latitude in conferring benefits. Firms should not be coerced into conferring benefits over and above what is required strictly by justice, but its freedom should be respected in conferring benefits to others in the manner and in the amount in which it so desires. However, without the practice of corporate social responsibility, which is aimed at promoting the common good, we continue to witness systems of oppression of the weakest members of society. Corporate social responsibility should therefore not be considered an option for firms but a requirement based on the concept of full justice. Therefore, firms should be strongly encouraged to practice corporate social responsibility and wherever possible help society

solve some of its most pressing social problems. Richardson Heckert, of Du Pont, expresses this view thus, “when a corporation’s goals are very much out of line with society’s goals, they are in trouble ... the fact is you can’t be a large, successful corporation and be working against the public will; not for long” (Watson, 1991, p. 21).

With strict justice alone, firms will never be in a position to solve any of the great problems of the world and in many cases we should not be surprised if people are hurt. We can witness this today in the case of HIV-drugs¹⁰ where some pharmaceutical companies are maintaining high prices on the products to recover research and development costs in the midst of widespread human suffering. Brazil has already broken patent laws to reproduce their own generic drugs to combat HIV-AIDS. Some firms may leave aside strict justice (for example, manufacturing substandard or unsafe products), while they give a little to some good cause, and call it corporate social responsibility without realizing that they are in fact guilty of a grave injustice. The practice of corporate social responsibility first requires that the firm begin with strict justice. Corporate social responsibility is like a generous overflow of strict justice.

Supreme Value

MacIntyre (2000) observes that in dominant cultures of advanced modernity, as in the LBM, the exercise of individual choice is often identified in the contemporary world with the exercise of liberty or freedom. Such choice is prior to and determines principles (rather than be governed by principles), and so, freedom is threatened when it is suggested that principles that ought to govern our actions are not principles that are up to us to choose but rather to discover.¹¹ Jenkins (2000) notes that the spirit of liberalism is to hold a strong view of limited individual rights that all must respect while allowing for diversity in views about morality, religion, and so forth. Liberalism can tolerate great diversity by leaving decisions about the best way of living to the individual, while communal agreement is required on a set of basic rights. An attempt to formulate which of the diverse views can be appreciated and valued is not part of a liberal strategy (although this is left to the individual) but simply that diversity is to be accepted.¹² The CBM provides an approach that allows a common vision in that this approach strives for a unified view based on the foundation of universal objective norms.

Under the SBM, the supreme value of equality demands that each be given the same, and so, for example, there would be no incentive for pay for performance. Employees who distinguish themselves through performance would not be rewarded differently for their effort. Therefore, there would be no incen-

tive to innovate, to improve effectiveness or efficiency. Recall, also, that the concept of justice demands that each is given what is his or her due, but that does not necessarily mean giving each person the same. A utopian idea of equality in fact is the source of the worst injustice. A virtuous manager will behave or treat each employee differently—with an *unequal justice*—because each one's needs are different. The virtuous manager will then adapt himself or herself to the specific circumstances: He or she will give joy to a person who is sad, knowledge or training to those who lack it, affection to one who feels that he or she is alone, compassion to those who suffer loss, patience to those who are experiencing anxiety, and so forth.

The common good that is the supreme value of the CBM, promotes the welfare of both the firm and employees, both collectively and distributively. It is important to note that notions of the common good are also defined within the context of liberalism and socialism. The SBM stresses the collective aspect in which the individual good is absorbed into the common good. The LBM emphasizes the distributive aspect by viewing the common good simply as a mere sum of the individual goods. The CBM concept of the common good balances these extreme notions and recognizes the interdependencies of both employees and the firm. For example, if management is only interested in the bottom line, and workers only in wages, although each benefit the other, they do not have a common good. In many instances, these self-interested positions often strain management-employee relationships. The fundamental reason for this antagonism lies in the error of considering the employees as an instrument for the production of goods and services. The relationship between management and employees should, however, be one of cooperation because neither one can exist without the other. The common good can therefore be defined as participation by both management and employees in a joint effort to achieve the output. To most efficiently and effectively actualize the common good, management must be genuinely interested in the welfare of their employees, and the employees must have at heart the success of the business; the two interests must be merged into one common enterprise. In this sense, the common good provides a conceptual framework for the alignment of personal and corporate values, which are often in conflict under the LBM.

From its very etymology, the CBM emphasizes the common good as its supreme value. The common good is perhaps easier to recognize in practice than it is to define. One of the justices of the U.S. Supreme Court says that the definition of the common good is not unlike that of pornography—"you know it when you see it" (Mahon and McGowan, 1991); for example, firms that have elderly care assistance, flexible work hours, job sharing, or that allow

employees to work from home and contribute to the common good. Rather than a specific good, the common good should be understood as the set of conditions that would allow employees to develop themselves (materially, culturally, spiritually, and so forth) to the fullest. The common good is achieved when employees contribute to the firm in accordance with their abilities and with the awareness of the legitimate needs of others. The development and success of any business therefore comes about through the contribution made by all its employees (this characterizes the relationship between employees and the common good). Firms, therefore, have an obligation to provide the conditions in the work environment that would help employees develop; for example, training needs of employees (this characterizes the relationship between the common good as related to the employees). The CBM notion of the common good provides a basis for mediating the excesses of the LBM and SBM. If freedom is stressed, equality and the common good suffer; if equality is stressed, both the individual good and the common good suffer.

Conclusion

The CBM is not opposed to a capitalism that is characterized by a system of free enterprise, free production, and free competition; it is opposed to that of no regulation and no control (*the invisible hand*). However, the former system of capitalism must be always fused with ethical values and motivation; the spirit of solidarity and cooperation; the juridical order, that is, rights and duties based on justice in the market (*the visible hand*); and on the dignity of the human person. The CBM acknowledges and presupposes the primacy of people over profits. Ethics and profits, however, cannot be separated such that the former is the ends and the latter is the means. Ultimately, people are not looking for financial wealth as an end (although some do) but rather as a means toward their own fulfillment or happiness. Human fulfillment or happiness is defined here not as a passing feeling or emotion such as joy, gladness, cheerfulness, contentment, and so forth, but as a total satisfaction of all one's desires.

Notes

1. This is in contrast to other perspectives of human nature including the humanistic theories of the following schools of thought: naturalistic, rationalistic, scientific, dialectical materialism, psychoanalytical, behaviorist, biological-evolutionist, neopositivist, existentialist, and idealistic.

2. Perhaps the sentiment of a noted economist is somewhat prophetic. In 1942, Schumpeter argued that the creation of wealth under liberal capitalism would give rise to beliefs that would challenge its ethical basis (Coelho et al, 2003). He was, however, mistaken in that he thought that this would ultimately lead to its replacement by socialism, which has failed both in theory and in practice.
3. Within the communitarian philosophy, there are different schools of thought: narrative communitarianism, egalitarian communitarianism, and accountable/political communitarianism. The article addresses the last perspective.
4. This is not to deny, in practice, many other sociopolitical systems: cooperative individualism, communitarian socialism, liberal socialism, liberal communitarianism, and so forth.
5. This article develops a theory of business that is actually grounded in and derived from the philosophy of business as enunciated in this current article.
6. Socialists would agree with the liberal ideologies (Bentham's and Mill's utilitarianism, James' and Dewey's pragmatism) in identifying happiness with material pleasure, but both fail to make the link that the material welfare is only a necessary means for the real happiness that is only achieved above the material level. An inherent weakness of liberalism is the tendency to overlook the fact that society is the means for a person to attain his or her eternal fulfillment beyond this temporal life.
7. Under liberalism, the individual is placed above the family, and in socialism it is society that is placed above the family.
8. Sam Albert, a consultant, dubbed the term *coopetition* a cross between competition and cooperation (see *The Wall Street Journal*, May 18, 1991).
9. The Romans define justice as *ius suum cuique tribuere*, giving each person what is due to him, namely, what is his right (see De Torre, 1990, 64).
10. The author's intention here is not to simplify or to make a judgment in this case because the issue is fairly complex and involves short-term and long-term considerations and issues of legality versus morality. In short, it requires the practice of the virtue of prudence. A reviewer of this article commented that the issue of HIV drugs is very complicated. Without the ability to recover their R&D costs, the drug companies will have little or no incentive to develop the next generation of HIV or other drugs.
11. Senator Joseph Biden expressed the fear that natural law dictates morality to us, instead of leaving matters to individual choice. *The Washington Post*, September 8, 1991.
12. Claims to be the defender of liberty can end up losing freedom that ought to be balanced by truth, justice, and law.

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Corporate Governance: An Ethical Perspective

Surendra Arjoon

ABSTRACT. This paper discusses corporate governance issues from a compliance viewpoint. It makes a distinction between legal and ethical compliance mechanisms and shows that the former has clearly proven to be inadequate as it lacks the moral firepower to restore confidence and the ability to build trust. The concepts of *freedom of indifference* and *freedom for excellence* provide a theoretical basis for explaining why legal compliance mechanisms are insufficient in dealing with fraudulent practices and may not be addressing the real and fundamental issues that inspire ethical behavior. The tendency to overemphasize legal compliance mechanisms may result in an attempt to substitute *accountability* for *responsibility* and may also result in an attempt to legislate morality which consequently leads to *legal absolutism*. The current environment of failures of corporate responsibility are not only failures of legal compliance, but more fundamentally failures to do the right (ethical) thing.

KEY WORDS: Corporate governance, ethics, legal compliance mechanisms, ethical compliance mechanisms, freedom of indifference, freedom for excellence

Introduction

Over the last two decades, corporate governance has attracted a great deal of public interest because of its

apparent importance for the economic health of corporations and society in general. The headlines of the previous 2 years in particular, portrayed a sad story of corporate ethics (or lack thereof): WorldCom, Anderson, Merrill Lynch, Enron, Martha Stewart, Global Crossing, Qwest Communications, Tyco International, Adelphia Communications, Merck, Computer Associates, Parmalat, Putnam, Boeing, Rite Aid, Xerox, ASEA Brown Boveri, Kmart, Swiss Air, and so on. Falling stock markets, corporate failures, dubious accounting practices, abuses of corporate power, fraud, criminal investigations, mismanagement, excessive executive compensation indicate that the entire economic system upon which investment returns have depended is showing signs of stress that have undermined investors' confidence. Some corporations have grown dramatically in a relatively short time through acquisitions funded by inflated share prices and promises of even brighter futures. In others, it seems as if the checks and balances that should protect shareholder interests were pushed to one side, driven by a perception of the need to move fast in the pursuit of the bottom line. While some failures were the result of fraudulent accounting and other illegal practices, many of the same companies exhibited actual corporate governance risks such as conflicts of interest, inexperienced directors, overly lucrative compensation, or unequal share voting rights (Anderson and Orsagh, 2004). In the face of such scandals and malpractices, there has been a renewed emphasis on corporate governance.

Corporate governance covers a large number of distinct concepts and phenomenon as we can see from the definition adopted by the Organization for Economic Cooperation and Development (OECD) – “Corporate governance is the system by which business corporations are directed and controlled. The corporate

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governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions in corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance."¹ From this definition, we see that corporate governance includes: the relationship of a company to its shareholders and to society; the promotion of fairness, transparency and accountability; reference to mechanisms that are used to "govern" managers and to ensure that actions taken are consistent with the interests of key stakeholder groups. The key points of interest in corporate governance therefore include issues of transparency and accountability, the legal and regulatory environment, appropriate risk management measures, information flows and the responsibility of senior management and the board of directors. Many companies in the U.S. have adopted legal compliance mechanisms which address ethics or conduct issues in formal documents (Weaver et al., 1999), but much of this activity has been attributed to the 1991 U.S. Sentencing Commission's Guidelines for organizational defendants which prescribe more lenient sentences and fines to companies that have taken measures to prevent employee misconduct (Metzger et al., 1994; Paine, 1994). From an ethical dimension, at a fundamental level, the key issues of corporate governance involve questions concerning relationships and building trust (both within and outside the organization).

Harshbarger and Holden (2004) point out that while many of the governance issues that organizations face are not new, the environment in which they confront them is more challenging than ever. For example, United States State and Federal law enforcement has applied significantly increased resources and a more aggressive philosophy toward confrontation of governance lapses, the media spotlight has increased awareness among those constituents directly affected as well as the business community as a whole, shareholder proposals are taken more seriously, and the judiciary has demonstrated its willingness for a more stringent definition of good faith. As well, there are a number of factors that have brought ethical issues into sharper focus, including globalization, technology, and rising

competition. Van Beek and Solomon (2004) also note the ability to deliver a professional service will necessarily take place in an environment in which there is an increasing tendency towards individuality, while society as a whole becomes more global. The new realities of corporate governance show that no entity or agent is immune from fraudulent practices² and have altered the way companies operate; they have re-defined the baseline for what is considered prudent conduct for businesses and executives (Dandino, 2004).

Legal compliance mechanisms

The difficulty with legal compliance mechanisms is that many abuses that have enraged the public are entirely legal, for example, companies can file misleading accounting statements that are in complete compliance with Generally Accepted Accounting Principles (GAAP). France et al. (2002) point out that laws regulating companies are ambiguous, that juries have a hard time grasping abstract and sophisticated financial concepts (for example, special-purpose entities or complex derivatives), well-counseled executives have plenty of tricks for distancing themselves from responsibilities (Enron and the individual officers all deny they have broken any laws), and the fact that criminal law applies only to extreme cases. As a result, violations are hard to enforce. Based upon in-depth interviews with 30 graduates of Harvard MBA program, Badaracco and Webb (1995) revealed several disturbing patterns. First, young managers received explicit instructions from their middle-manager bosses or felt strong organizational pressures to do things that they believed were sleazy, unethical, or sometimes illegal. Secondly, legal compliance mechanisms (corporate ethics programs, codes of conduct, mission statements, hot lines, and so on) provided little help in such environments. Thirdly, many of the young managers believed that their company's executives were out-of-touch with ethical issues; either they were too busy or because they sought to avoid responsibility. Finally, the young managers resolved the dilemmas they faced largely on the basis of personal reflection and individual values, not through reliance on corporate credos or company loyalty.

Although the accounting profession has always had a strong focus on internal controls, recent spectacular business failures which have undermined auditors' credibility in their reporting function, have eroded public confidence in the accounting and auditing profession. Brief et al. (1997) found that 87% of accountants surveyed were willing to misrepresent financial statements in at least one case when presented with seven financial reporting dilemmas. This has led to new and more stringent applications of standards.³ The problems of the professions (law, accounting, medicine) which we are witnessing today are not endemic to the industry, they are part of the problems in the wider society: sports, business, government and politics, education, and so on.

In the business world, particularly the world of finance, the many corporate scandals have led to a renewed interest and focus on legal compliance mechanisms. For example, the Sarbanes–Oxley Act⁴ (referred to as Sarbox) contains proposals that increases Chief Executive Officers' accountability for financial statements, increases penalty for fraud, makes Chief Executive Officers and Chief Financial Officers sign off financial statements, strengthens the role of the audit committee, and bans several types of non-audit consulting services by outside auditors. Also, auditors are required to give reports to audit committees on critical accounting policies and practices, information on alternative treatments of financial information, and bring to their attention any written communications with management (which could include disagreements as to the presentation of a company's accounts). The key goals of Sarbox are to enhance financial disclosures and auditor independence, improve corporate governance, protect public companies' employees (including whistleblowers) and shareholders, to increase accountability of corporate executives, and to deter and punish fraudulent behavior (Carpenter, 2004). The New York Stock Exchange and Nasdaq listing requirements purport to strengthen Boards' independence (that is, a substantial majority of the Board of Directors should be independent from the sphere of influence of the CEO and senior management of the company, and the Board should be held accountable to shareholders) by requiring a majority of independent directors (that is, there should be no material relationship with the company

either directly or as a partner, stockholder or officer of an organization that has relationship with the company), executive sessions, and by tightening the definition of independence. Independence and disclosure can be seen as the main themes of Sarbox.

Ironically, Weisul and Merritt (2002) in surveying 1100 college students on 27 U.S. campuses, found that although the students were disturbed by recent corporate scandals (some 84% believed that the U.S. is having a business crisis and 77% think CEOs should be held personally responsible for it), 59% of the same students admitted that they had cheated on a test and only 19% say they would report a classmate who cheated. Although a necessary component of corporate governance, legal compliance mechanisms have clearly proven to be inadequate; they lack the moral firepower to restore confidence and the ability to rebuild trust in the corporation. Termes (1995) compares ethical compliance mechanisms (virtues) versus legal compliance mechanisms (codes) and concludes that the ethical functioning of financial institutions cannot be trusted with the imposition of codes of ethical conduct, but the only way in which companies can be ethical is for people to be ethical. Donaldson (2003) observes that the legalistic (or check-the-box) approach to good corporate governance will not inspire a true sense of ethical obligation and may lead to an array of inhibiting, *politically correct* dictates. He further notes that instead of striving to meet higher standards, corporations would only be inordinately preoccupied with meeting legal obligations under new costs associated with fulfilling a mandated process that could produce little of the desired effect to the detriment of other critical objectives. Consequently, corporations would lose the freedom to make innovative decisions that an ethically sound culture requires.

Ethical compliance mechanisms

Trevino et al. (1999) found that specific characteristics of legal compliance programs matter less than broader perceptions of a program's orientation toward values and ethical aspirations. They found that what helped the most are consistency between policies and actions as well as dimensions of the organization's ethical climate such as ethical leadership, fair treatment of employees, and open discussion of

ethics. On the other hand, what hurts the most are an ethical culture that emphasizes self-interest, unquestioning obedience to authority, and the perception that legal compliance programs exist only to protect top management from blame. With respect to the issues of ethical leadership, Collins (2001) examined the character traits of effective business leaders in the culture of 11 companies that transformed themselves from good solid businesses into great companies that produced phenomenal and sustained returns for their stockholders. Every one of the companies he profiled during the critical period in which it was changing from good to great has what he termed *Level 5* leadership which was his top ranking for executive capabilities. Leaders in all companies exhibited the traits of fanatical drive and workmanlike diligence, but Level 5 leaders were also people of integrity and conscience who put the interest of their stockholder and their employees ahead of their own self-interest.

Byrne (2002) points out that following the abuses of recent times, executives are learning that trust, integrity, and fairness do matter and are crucial to the bottom line. Corporate leaders and entrepreneurs somehow forgot that business is all about values and are now paying the price in a downward market with a loss of investor confidence. Byrne (2002) also notes that in the post-Enron, post-bubble world, the realization that many companies played fast and loose with accounting rules and ethical standards and which allowed performance to be disconnected from meaningful corporate values, is leading to a re-evaluation of corporate goals, values, and purpose. What's emerging is a new model of the corporation in which corporate cultures will change in a way that puts greater emphasis on integrity and trust. Such changes would include the diminishing of the single-minded focus on *shareholder value* which measures performance on the sole basis of stock price; the elevation of the interests of employees, customers, and their communities; a reassessment of executive pay to create a sense of fairness; a resetting of expectations so that investors are more realistic about the returns a company can legitimately and consistently achieve in highly competitive markets.

There is little doubt that corporate culture contributed to and is at the heart of the recent scandals and transgressions. Hansen (2004) doubts whether legal compliance mechanisms alone can show the

way to business probity and points out the need to ask some basic questions: Are Sarbanes–Oxley and the mandated reforms being made likely to achieve the desired goal? Will our efforts foster a more ethical business environment or is it likely that much of the effort will be directed to formulaic conformity with the appearance of ethical probity? Will corporations be prompted merely to offer empty clichés in their public embrace of integrity (e.g., some corporations might think that rewriting their value statement in a larger font size might somehow translate into a more impassioned ethical commitment)? Hansen (2004) also points out that more explicit recognition of the role of culture in an organization may be forthcoming since the challenge is to ascertain whether a corporation's compliance program is merely a *paper program* or whether it was designed and implemented in an effective manner. A cultural norm that reinforces the importance of compliance is one measure of a real compliance program as opposed to one that merely exists on paper (e.g., Does the company treat employees fairly? Is it honest in its business dealings? etc.).

At the core of the current debate over corporate governance is the issue whether managers of corporations should serve the interests of shareholders or the interests of all stakeholders (employees, creditors, suppliers, customers, community, shareholders). This issue is related to a more fundamental question of the nature and purpose of the firm (is it an entity, an aggregate of individuals, a nexus of private contracts?). Two essentially different models of corporate governance can be identified: the model based on the maximization of shareholder value and the model of social responsibility.⁵ Ambrosio and Toth (1998), using a natural law ethical framework, show that the latter is more coherent with human nature as the natural law perspective posits the primacy of ethics over politics, law and economics. Economics cannot be divorced from ethics anymore than law, politics, education can (Arjoon and Gopaul, 2003). Natural law ethical theory provides a framework to address the moral dimension of human action, serves as a guide to those directly responsible for corporate governance, judges whether particular corporate actions are consistent with legal obligations, and provides the grounds for a moral critique of existing laws and practices related to corporate governance. The shareholder wealth maximization

model deflects attention from the ethical questions and the concern for values. Related to the first principle of natural law ethics (do good and avoid evil) is virtue ethics (be virtuous and avoid vices), which provides more positive principles for the practice of corporate governance.

Legal versus ethical compliance mechanisms

Kleining (1999) observes that despite certain congruities and convergences, there are some very important differences in the character and content of ethical and legal requirements which can help us understand why ethics is accorded a normative primacy in practical affairs and legality is to be judged by reference to ethics (not vice versa). Specifically, law is concerned primarily with conduct and ethical requirements are centrally concerned with reasons, motives, intentions, and more generally with the character that expresses itself in conduct. Ethics therefore is concerned with what we are and not just what we do. Also, law is jurisdictionally limited since what is legitimately required in one state or country may differ from another, whereas ethical values are inclined to be more universal. Kidder (1995) defines ethics as *obedience to the unenforceable*.

Longstaff (1986) argues that an overemphasis on legal compliance mechanisms⁶ could be at the expense of ethical reflection since people may have less reason to form their own opinions and take personal responsibility for the decisions they make. This could result in a subtle substitution of *accountability for responsibility* and may also result in an attempt to legislate morality, which consequently leads to legalism. Legalism is an approach which emphasizes primarily the strict and precise observance of law while tending to overlook the purpose for which the law exists. Bouckaert (2002) points out the paradox of ethics management is that in creating new regulations to temper opportunistic behavior within and between organizations, the symptoms may be tempered but the underlying roots of opportunism may also be reinforced. Seidman (2004) explains the paradox in that focusing on informed acquiescence often obtains the opposite results, producing ever-increasing bureaucracies designed to enforce

compliance with multiplying legal and regulatory requirements which are often met by cynicism, and by the clever employees who attempt to game the system. In addition, violations lead to more bureaucracy resulting in a vicious cycle. The U.S. Sentencing Commission has acknowledged that despite the widespread movement to adopt compliance programs, there was not much evidence that the movement had resulted in *effective* compliance programs (Seidman, 2004). Table I shows the differences between the legal compliance and the ethical compliance approaches.

The current business environment provides an excellent opportunity to establish an organizational culture that goes beyond mere legal compliance.⁷ Seidman (2004) observes that in suggesting an organization promote a culture that encourages a commitment to compliance with the law, it is important to understand the nature of what culture is and how it informs human decisions and actions. In other words, you cannot have a culture of compliance unless you have a culture of ethics. Seidman (2004) concludes that the failures of corporate responsibility have been shown to be not only failures of legal compliance, but more profoundly and fundamentally failures to do the right (ethical) thing; the current environment results from a loss of ethical, rather than simply legal footing. Harshbarger and Holden (2004) also agree that as the new realities of corporate governance set in, the substance of the new laws and rules must not be lost in the race to comply with their form. They point out that organizations must make a good faith effort to comply not just with the letter of the law, but with the spirit of the new reforms that recognizes three primary benefits: (1) provides organizations with a stronger measure of an inexpensive insurance mechanism and is a strong mitigating factor in any sanction imposed, (2) more accurate information flows to the top enabling more efficient and effective business decisions, and (3) the imprecise reforms offer business leaders the opportunity to emerge with more well-defined standards (leaders should be embracing this period of reform as an opportunity to institutionalize their systems).

Legal compliance mechanisms tend to promote a *rule-based or the stick approach* which corresponds to the *letter of the law* which may not necessarily inspire or instill excellence, whereas, ethical compliance mechanisms promote a *principle-based or the carrot*

TABLE I
Differences in legal and ethical compliance approaches^a

Factors	Legal	Ethical
Ethos	Regards ethics as a set of limits and something that has to be done	Defines ethics as a set of principles to guide choices
Objectives	Geared toward preventing unlawful conduct	Geared toward achieving responsible conduct
Method	Emphasizes rules and uses increased monitoring and penalties to enforce these rules	Treats ethics as infused in business practice (leadership, core systems, decision-making processes, etc.)
Behavioral assumptions	Rooted in deterrence theory (how to prevent people from doing bad things by manipulating the costs of misconduct)	Rooted in individual and communal values (both material and spiritual)

^aAdapted from Paine (1996).

approach which corresponds to the *spirit of the law*. Distinguishing between legal and ethical compliance can help to explain why legal compliance mechanisms are insufficient and may not be addressing the real and fundamental issues that inspire ethical behavior. Many legal decisions are made without examining the ethical aspects, especially those that deal with the fear of litigation. This may result in managers who are less practiced at decision-making and more seasoned at relegating every decision to a checklist of rules and regulations rather than relying on some ethical judgement. Ignoring the ethical dimensions of decision-making runs the risk of institutionalizing unthinking behavior (imprudence) and loses sight about what is the right thing to do (Seglin, 2000, Chapter 6). According to Howard (1994), by exiling human judgement, modern law has changed its role from a useful tool to a brainless tyrant as he puts it:

“...rules, procedures, and rights smothering us are different aspects of a legal technique that promises a permanent fix for human frailty. Dictates are so precise that no one has the chance to think for himself. Procedural layers do away with individual responsibility. Rights are absolute so that choices among conflicting groups never need to be addressed much less balanced. Law be cleansed of human input. All tough choices, and indeed all choices, must be pre-determined.” (Howard, 1994, pp. 185)

Howard (1994, pp. 173/174) also observes that when humans are not allowed to understand why

they are making the decision, they lose their *joy* because modern law tells them that their *duty* is only to comply, not to accomplish; understanding has been replaced by *legal absolutism*. This points to a notion of freedom that depends, at least as much on deciding how to do things as on deciding what to do. Pinckaers (2001) is of the view that legal compliance (*law of duty*) and ethical compliance (*rule of joy*) reflect two types of ethics: (1) *freedom of indifference* which is the source of ethics of obligation and is seen as an external limit imposed on the agent, and (2) *freedom for excellence* which inspires an ethics of happiness and virtue and governs the dynamism and development of a person's faculties of action which tend toward perfection and happiness of the human person. These concepts of freedom also provide the theoretical basis for explaining the different moral or ethical behavior that arises from the legal and ethical compliance approaches that are presented in Table I.

Under freedom of indifference, one loses sight of or is no longer concerned with the bigger picture (the common good or happiness) that would unite all acts in one same intention since each act is viewed as independently governed by obedience to the law. It reduces ethical behavior to cases of conscience (the act of judgement) and presupposes a freedom that can be limited only in its external expression. In this case, ethics loses its formative role and simply becomes a habit of submission to the law. Freedom for excellence, on the other hand, engenders a morality that regards happiness as decisive for the integral ordering of one's life and the formation of one's character.

Freedom for excellence can be compared with an acquired skill in an art or profession as it is the capacity to produce our acts when and how we wish, like high-quality works that are perfect in their domain. Pinckaers (1995) provide comprehensive discussion of these two concepts of freedom.

Paine (1996) identifies an organizational integrity-based stratagem that is more comprehensive and broader than the legal compliance strategy, to encourage and support an ethical corporate culture. Four challenges which must be met before an organizational integrity approach can work are: (1) developing an ethical framework, (2) aligning practice with principles, (3) overcoming cynicism, and (4) resolving ethical conflicts. In order to create an ethical compass or a framework for integrity, Paine (1994) also suggests a useful starting point is to begin by answering some questions to four fundamental sources of responsibility: (1) What is the organization's fundamental reason for being – its ultimate aim (*purpose*)? (2) Who are the constituencies to whom the company is accountable and on whom it depends for success? What are their legitimate claims and interests (*people*)? (3) What is the organization's authority and ability to act (*power*)? and (4) What are the organization's obligations or duties, as well as its guiding aspirations and ideals (*principle*)?

Conclusion

Failure in corporate governance is a real threat to the future of every corporation. With effective corporate governance based on core values of integrity and trust (reputational value),⁸ companies will have competitive advantage in attracting and retaining talent and generating positive reactions in the marketplace—if you have a reputation for ethical behavior in today's marketplace it engenders not only customer loyalty but employee loyalty. Effective corporate governance can be achieved by adopting a set of principles and best practices. A great deal depends upon fairness, honesty, integrity and the manner in which companies conduct their affairs. Companies must make a profit in order to survive and grow, however, the pursuit of profits must stay within ethical bounds. Companies should adopt policies that include environmental protec-

tion, whistle blowing, ethical training programs, and so on. Such compliance mechanisms help develop and build corporate image and reputation, gain loyalty and trust from consumers, and heighten commitment from employees. Ethical compliance mechanisms contribute to stability and growth since they instill confidence; management, leadership, and administration are essentially ethical tasks. There is also a need to integrate law and ethics so that companies will be able to navigate gray areas and stay on the right side of the law, even in situations where the rule of law is ambiguous or where they might otherwise have been unaware that a law applies (Seidman, 2004).

Ethics is truly an essential ingredient for business success and it will continue to serve as the blueprint for success in the 21st century. Many of our traditional role models have fallen, and so it is more important for us to set a strong ethical example for future generations. We are in danger of breeding a whole generation of moral stutterers who are imprudent and who are abdicating their responsibility to carefully think through the ethical dimensions of their actions. Some answers to the following questions can serve as a basis for future research endeavors: Were the recent scandals in the U.S. and elsewhere the result of corporate greed and collusion, or were companies driven by market forces which they were unable or unwilling to resist? Do we need a radical overhaul of corporate governance and codes or can companies be relied upon to regulate themselves? Are businesses collectively contributing to the failures of corporate responsibility, albeit unwittingly or through ignorance? Do the solutions lie outside liberal capitalism?

Perhaps it is most appropriate to close with the following remark which succinctly captures the aspects of corporate governance as discussed in this paper:

“An adequate corporate strategy must include non-economic goals ... An economic strategy is humanized and made attainable in a living organization by deciding on the character the company is to have, the values it espouses, and its relationships to its customers, employees, communities, and shareholders. The personal values and ethical aspirations of the company leaders, though probably not specifically stated, are implicit in all strategic decisions ... Al-

though codes of ethics, ethical policy for specific vulnerabilities, and disciplined enforcement are important, they do not contain in themselves the final emotional power of commitment. Commitment to quality objectives – among them compliance with law and high ethical standards – is an organizational achievement. It is inspired by pride more than the profit that rightful pride produces. Once the scope of strategic decision is thus enlarged, its ethical component is no longer at odds with a decision right for many reasons.” (Kenneth Andrews, 1989, pp. 10/11)

Notes

¹ OECD April 1999, <http://www.encycogov.com/WhatIsGorpGov.asp>.

² Marshall Cogan (the founder, controlling shareholder, CEO and Chairman of the Board of Directors of Trace Holdings International) over a period of 15 years, took some \$40m from the company through a number of self-dealing transactions while the officers and directors stood by idly. Trace ultimately entered into a Chapter 7 bankruptcy proceeding and the trustee subsequently filed a suit against Cogan and the Trace officers and directors. The court held for the trustee, citing the directors’ utter failure to exercise their legal duties to act on behalf of Trace’s shareholder and creditors, and went so far as to impose liability on Trace officers who were not part of the board, but who had the authority to preempt Cogan’s misappropriations (Dandino, 2004). Martha Stewart was also recently convicted and was found guilty of conspiracy, making false statements and obstruction of justice. Her ex-stockbroker, Peter Bacanovic was also convicted of similar charges.

³ In January 2003, AIMR and its Disciplinary Review Committee sent a letter to all AIMR members reminding them of their obligations under the Code and Standards requesting, “*If you become aware of unethical conduct by a fellow member, please let us know. If you are unsure about the membership status of an investment profession, file a complaint and we will make that determination ... we cannot act without knowledge of a violation and we cannot act against those who are not AIMR members. You can help us acquire that knowledge, and we encourage you to take a more active interest in ensuring that AIMR members abide by the Code and Standards (www.aimr.org).*”

⁴ The Sarbanes–Oxley Act of 2002 (signed into law on July 30), the most radical reform of corporate governance since the Great Depression of the 1930s, has a number of major ramifications on large businesses: ban-

ning loans to directors and officers; disgorging compensation already paid to CEOs and CFOs in cases of financial misconduct; directing CEOs and CFOs to personally certify their familiarity with reports, legal compliance, material accuracy, and disclosures to the public and to the audit committee; requiring the audit committee to preapprove outside auditors and avoid some non-audit services such as consulting; rotating the responsible partner reporting directly to the audit committee and avoiding conflicts and coercion; requiring the audit committee to have sole authority over auditors and consist of only non-management directors; establishing protections for whistle-blowers and disclosing the identity of financial experts on the committee and board; calling for attorneys to report violations by their corporate clients and, if there is no action, to report violations to the SEC directly. It also calls for additional or accelerated SEC filings, reviews, and disclosures; corporate disclosure of a code of ethics governing conduct of management and financial personnel; and extensively increased SEC enforcement and penalties (Jacobs, 2004). The Act defines the code of ethics as necessary standards to promote: “(1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, (2) full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the issue, (3) compliance with applicable governmental rules and regulations (Carpenter, 2004).”

⁵ In practice, many firms adopt the model of social responsibility. There is a push for what is called “The Triple Bottom Line” model of the firm – economic, social, and environmental – which has been gaining recognition in the business community due to pressure of the recent scandals. This effort has been pioneered by the Global Reporting Initiative (GRI – www.globalreporting.org).

⁶ The Economist (2004, p. 15) observed that many people are concerned about the proliferation of new business regulations used to prevent recurrence of business scandal, but over-regulation may not be the right answer. A recent study by a World Bank team (The Economist, 2004, p. 16) also reveals that the poorest countries have the most rules which make returns from entrepreneurial risk-taking unattractive and provides an avenue for corruption. The same study also concluded that over-regulation can scare away foreign capital.

⁷ A speech given by Commissioner Cynthia Glassman on Sarbanes–Oxley’s lesson for Broker Dealers, October 17, 2003, captures this aspect: “*As we move past Sarbanes–Oxley and the requirements, rules and regulations that*

have come in its wake, it's essential that corporate boards look beyond the letter of the law and be ever mindful of the spirit of the reforms. By determining what makes up the moral DNA of the company and establishing a culture that puts ethics and accountability first, a company and its Board are less likely to fall into the common trap of mere compliance – where simply identifying a new line of legally acceptable behavior and how to maneuver the loopholes that accompany it passes for a commitment to reform.” The Commission’s *Ad Hoc* Advisory Group recommended a focus on corporate culture and the dispositive role culture plays in getting more respect for the law.

⁸ There seems to be a shift in focus away from compliance towards ethics as corporate reputation and reputational value become more central. A survey of 2000 public and private companies, conducted by Aon, an American insurance company, found that the single biggest risk or business hazard was *reputational risk* (The Economist, 2004, p. 14).

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Striking a Balance Between Rules and Principles-based Approaches for Effective Governance: A Risks-based Approach

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ABSTRACT. Several recent studies and initiatives have emphasized the importance of a strong ethical organizational DNA (ODNA) to create and promote an effective corporate governance culture of trust, integrity and intellectual honesty. This paper highlights the drawbacks of an excessively heavy reliance on rules-based approaches that increase the cost of doing business, overshadow essential elements of good corporate governance, create a culture of dependency, and can result in legal absolutism. The paper makes the case that the way forward for effective corporate governance is to strike an optimal balance between rules-based and principles-based approaches. The recent corporate scandals have demonstrated that the ethical ODNA is critical to the driving force and basis of legal and regulatory requirements. Effective governance means adhering to ethical principles, not merely complying with rules, and is a crucial guardian of a firm's reputation and integrity. It is through an effective corporate governance program (that is, one that optimally captures and integrates the appropriate aspects of rules-based and principles-based approaches, and identifies and assesses the related risks) that an organization can reconfigure its ODNA for improved performance. Focusing on the ethical ODNA as the basis of new governance mea-

asures provides an opportunity to develop a competitive advantage as it represents a potential source of differentiation, strengthens the relationship with all stakeholders of the organization by building a culture of trust and integrity, and re-instills investor confidence. This paper employs dialectical reasoning that links the ODNA through principles-driven rules in developing a risks-based approach. A comparison from a risk assessment perspective between rules-based and principles-based approaches is presented. Although there have been few applications employing dialectical reasoning in business research, this methodology can be extremely useful in isolating ethical issues and integrating them into the business process. The risks-based approach captures the benefits of both rules-based and principles-based approaches, and incorporates trust-based principles such as solidarity, subsidiarity and covenantal relationships.

KEY WORDS: effective corporate governance, organizational DNA, ethics, rules-based, principles-based, risks-based, trust-based, solidarity, subsidiarity, dialectical reasoning, compliance

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Ethics and corporate governance

The current wave of corporate fraud prosecutions focuses on a variety of criminal conduct: falsification of corporate books and records, distribution of fraudulent financial statements to the public and to regulatory authorities, creation of “off-the-books” accounts and relationships to conceal fraudulent activity, abuse of high corporate positions for personal benefits at the expense of the corporation, and

insider trading (Wray, 2005). Often, related charges are brought for obstructing and compromising audits and investigations related to fraudulent misconduct, destruction or alteration of corporate records, perjury before grand juries and investigative authorities, and related criminal activities. Arnott (2004) summarizes that most of the recent serious ethical lapses relate to overt misrepresentation of earnings, self-serving research reports, insider trading, and outright fraudulent conveyance. Lesley and Lacey (2004) cite several cases. For example, robust reported earnings growth at both Enron and WorldCom was not supported by hard cash, the Adelphia Board was stacked with company insiders who turned a blind eye to self-dealing by company executives, and Tyco's CEO raided the company's coffers as well as the company's P&L statement was plagued by constant write-offs. Tinkler (2005) attributes the latest round of scandals to unrealistic earnings expectations with an overemphasis or fixation on the stock price and quarterly earnings reports. It reflects the tremendous pressure under which executives operate since their incentive systems are tied to meeting quarterly targets. Arnott (2004) addresses the consequence of aggressive earnings reports of the past several years and identifies two problems: (1) they create an artificial benchmark for future generations of managers to surpass, and (2) overstated earnings must be paid back out of future earnings, which creates an explicit drain on future earnings. Eventually, the cumulative sum of reported earnings will closely match the cumulative true earnings.

Holmstrom and Kaplan (2003) in examining the state of US corporate governance note firstly that the broad evidence is not consistent with a failed corporate governance system as the US economy and stock market have performed well both on an absolute basis and relative to other countries over the past two decades, and the US stock market has continued to outperform other broad indices since the scandals broke. The interpretation of the evidence is that while parts of the US corporate governance system failed under the exceptional strain of the 1990s (and early 2000s), the overall system, which includes oversight by the public and the government, reacted quickly to address the problem. Secondly, the assessment of the new legislative, regulatory, and market responses (e.g., the US Sarbanes-Oxley Act of 2002, new governance guidelines from the NYSE

and NASDAQ, revised US Sentencing Commission Guidelines) are likely to make a good system better, though there is danger of over-reacting to extreme events. Greenfield (2004) questions that amid the Tyco, WorldCom, and Enron furor, whether we are rushing to "fix" things that may not be the parts that are broken. The solutions being offered are based on two separate assumptions: (1) the debates in the financial markets and loss of confidence in business, in general, stems from failures in the corporate governance systems, and (2) getting rid of a "few bad apples" (that is, a few dishonest individuals have damaged the reputations of many honest companies), which exist in every barrel in order to get on with business. Greenfield (2004) argues that fixing either assumption will not solve the underlying problems. Also, solutions based on these assumptions cost companies significant amounts of money, time and effort. For example, Nolan (2003), reported that the Boston-based AMR Research calculated the cost of Sarbanes-Oxley compliance and it was estimated that Fortune 100 companies would have spent US\$ 2.5b on compliance in 2003. Greenfield (2004) concludes that the alternate theory of misbehavior in companies credit individual "bad apples" – people who prefer not to follow the rules – for most ills in business. The main danger in following this approach is the complacency that sets in afterwards since it leaves the damage they have done intact in companies. Trevino and Brown (2004) also admit that the first reaction to ethical problems in organizations is generally to look for a culprit who can be punished and removed (the idea is that if the organization gets rid of one or more bad apples all will be well). However, these authors argue that most people are the product of the context in which they find themselves so that most unethical behavior in business is supported by the context in which it occurs – either through direct reinforcement of unethical behavior or through benign neglect.

According to McKee (2004), the challenge is to maintain an effective organizational DNA (ODNA) that promotes a corporate governance culture of trust, integrity and intellectual honesty, while fulfilling the common law or professional duties of good faith, diligence, care and skill. This challenge reflects the wider aspirations of society and the standards of the business community generally. Companies rebel against a too detailed, prescriptive

approach, but if the approach is too broad, companies may need to seek guidance. From a European perspective, companies face a crossroad — the issue then becomes whether the US has the best corporate governance structure which promotes a rules-based approach, and in that case, would they want to adopt the US model. Studies cited in this paper demonstrate that a principles-based approach can work effectively and avoid the expensive legislative focus of the Sarbanes—Oxley Act. Wallenberg (2004) concludes that good corporate governance is a management question in terms of having the right ethical attitudes at the top; and it is a cultural question, by ensuring that the attitude permeates every aspect of business operations and conduct. Integrity and ethical values are critical to the establishment and maintenance of an effective corporate governance. The recent scandals demonstrate that the ethical ODNA has to be the driving force and basis of legal and regulatory requirements.

Berenbeim (2004) observes that the outlook for improved business ethics in governance depends in large measure on understanding institutional and human limitations and vigilance, which all but vanishes when markets rise, and makes four recommendations. Firstly, rather than focus on independence, more attention should be paid to the cultural context in which the board operates. Separation of the CEO's and Chair's responsibilities, and director independence are less important than an understanding of cultural dynamics that drive the board's deliberations. Secondly, the process of independence is achieved through director competence, allocation of resources to the board, and regular meetings of non-employee directors to discuss issues of common concern. Thirdly, board certification of financial statements may be an exercise that is beyond the board's competence. Finally, greater board involvement in company ethics and compliance programs should be encouraged. Teller (2004) suggests that, beyond compliance, every company can take three specific communication steps to enhance its reputation: (1) look at transparency strategies to make sure that transparency goes beyond financials to embrace full and candid communications about issues that are facing the company and affecting its profile as a corporate citizen, (2) embark on a program of proactive outreach to key stakeholders in order to

help underscore company strategy and commitments, and (3) be more aggressive about enlisting the involvement and participation of independent board members in selected instances with the media and other stakeholders.

Greenfield (2004) identifies four critical items to consider as companies develop ethics statements or programs: (1) relevant laws and regulations, (2) organizational policies and procedures, (3) organizational values, and (4) personal values. Training in ethics and values should aim toward four objectives: (1) raise awareness of company values as they relate to strategy and company culture, (2) increase the visibility or profile of values and ethics programs in the company, (3) give people tools they can use to reach ethical decisions on their own, and (4) teach people to consider the consequences of their actions (the best ethics training is experiential or scenario-based because it's most relevant to employees). The time and resources spent on preventing ethical compromise through ethical training can be infinitely smaller than what it takes to conduct internal and criminal investigation, convene investigative commissions and restore trust and repair stakeholder relations. Focusing on the ethical ODNA as the basis of new governance measures provides an opportunity to develop a competitive advantage as it represents a potential source of differentiation, strengthens the relationship with all stakeholders of the organization by building a culture of trust and integrity, and re-instills investor confidence. In order to combat corporate failures, ethical behavior must become part of the ODNA.

Effective corporate governance

It is important to understand what is meant by effective corporate governance. The hallmarks of an effective governance program would not only focus on adherence to legal requirements (for example, Deloitte and Touche (2003) note that public and private policies being enacted are intended to force companies and their executives to behave better), but also emphasize the importance of a strong ethical ODNA. Richman (2005) notes that in the current corporate climate, an effective compliance and ethics program serves a public relations purpose that

demonstrates a commitment to good governance and responsible behavior. The revised Sentencing Guidelines¹ is an example of an effective corporate governance (compliance and ethics) program and is a mitigating factor that may reduce the penalty imposed on an organization facing specific governmental fines and sanctions. Richman (2005) also highlights six factors that determine a company's culpability under the revised Sentencing Guidelines. Two factors mitigate culpability: (1) the existence of an effective compliance and ethics program, and (2) self-report, cooperation, and acceptance of responsibility. The other four factors that may increase punishment are: (1) involvement in or tolerance of criminal activity, (2) the company's prior history, (3) violation of an order, and (4) obstruction of justice. The revised guidelines place an emphasis on management's responsibility to develop and maintain an ethical ODNA and strengthen the criteria an organization must follow in order to create an effective compliance and ethics program. The guidelines provide a clear framework that promotes a culture that not only prevents and detects violations of law, but also promotes a culture that encourages ethical conduct; an overarching principle is the requirement of high-level responsibility for compliance. In particular, in order to be effective, a compliance and ethics program must be administered by members of senior management, and the board of directors and executive not only ought to be knowledgeable about both the content and operations, they are required to provide active leadership in defining the content and operations of the program. Training for directors and high-level personnel, as well as employees in general, has now become mandatory. At a minimum, the amendment explicitly requires organizations to identify areas of risks where criminal and ethical violations may occur (including the use of auditing and monitoring systems to detect criminal conduct, ongoing risk assessments, and periodic evaluation of the effectiveness of the program), train personnel in relevant legal standards and obligations, and give their compliance and ethics officers sufficient authority and resources to carry out their responsibility (Verschoor, 2004c, 2005).

According to the Sentencing Guidelines, the key elements or cornerstone of an effective program should include: (1) establishing compliance standards, policies, and procedures that are reasonably

capable of reducing the prospect of criminal conduct, (2) assigning specific high-level personnel (e.g., chief compliance officer) for oversight and overall responsibility, (3) using due care in the delegation of substantial discretionary authority to individuals who have a propensity to engage in illegal activities (e.g., need to do background checks), (4) communicating effectively the standards and procedures to all stakeholders, (5) taking reasonable steps to monitor and to audit systems (e.g., reporting systems, help line, etc), (6) consistently enforcing appropriate disciplinary mechanisms, and (7) producing a history of appropriate responses after detection of an offence (Nemerson, 2005). Price and Kowalski (2004) examine the potential ethical problems that may arise under the approach to the Sentencing Guidelines. In particular, they argue that unwavering adherence to Sentencing Guidelines may conflict with the ethical obligations of federal prosecutors to follow their own intuitions as ministers of justice. Effective corporate governance is, therefore, much broader than ensuring legal compliance. It should ultimately provide a company with a set of practices that are embedded in procedures and processes across the organization. The essential goal of an effective corporate governance program is to help governing authorities, managers, employees, and agents work together to pursue the purpose of an organization and achieve its more specific goals and objectives in a manner consistent with its standards for ethical business conduct (Johnson, 2004). In reality, many companies use, more or less, a combination of legal compliance and ethical compliance measures. For example, although the Sarbanes-Oxley Act is essentially perceived as comprising legal requirements, it is very specific with regard to ethics and compliance.²

With respect to ethics and corporate governance, there is an issue of whether companies should adopt a single, optimal governance structure or governance structures ought to vary substantially across companies and countries with respect to employment practices, shareholder structure, government policies, board of directors and top management team characteristics. With respect to structure, which is simple to apply (e.g., recommendations such as the appointment of a majority of independent directors to the board and the separation of the roles of the CEO and Chair), it could be costly and it is unclear whether

adoption of a 'one-size-fits-all' approach will produce better-managed companies or will satisfy stakeholders' objectives (Larcker et al., 2005). While there will be practices common to corporate governance programs, in general, each company faces a unique set of problems including circumstances, culture and costs to institute various mechanisms and therefore a different structure may be optimal. There will also be aspects that differ among industry groups and even among companies in the same industry; for example, some companies or industries may be more inherently prone to more legal risks such as antitrust issues (Richman, 2005). The one-size-fits-all approach is therefore unrealistic.

In any discussion of effective corporate governance, the role of the board is critical in shaping and determining the ODNA. Many boards comprise highly competent and accomplished individuals (e.g., Enron and WorldCom), but little attention has been paid to ethical obligations of directors who have the overall responsibility for ethical and legal compliance programs of the company. Berenbeim (2004) argues for greater board involvement in company ethics and compliance programs since directors are the custodians of the company's long-term interests, and are in the best position to request information. Schwartz et al. (2005) emphasize the need for directors to pay serious attention to their ethical obligations because: (1) recent corporate scandals involved serious ethical failures at the board level, (2) the nature of boards requires observance of ethical obligations, (3) boards charged with the ultimate responsibility of ensuring the ethics of their organizations, are thereby obligated to act as role models themselves, and (4) it is simply good for corporate business success for directors to be ethical. The authors propose a code of ethics framework for corporate boards and individual directors that is based on six universal core ethical values: (1) honesty, (2) integrity, (3) loyalty, (4) responsibility, (5) fairness, and (6) citizenship. The principal finding of a McKinsey Quarterly survey of more than 1000 directors is that although directors focus primarily on financial matters reflecting short-term corporate performance, they are now determined to play a more active role in the company's health (its ability to survive and develop over the longer term), its strategy, leadership and assessment of risk (Felton and Fritz, 2005).

Methodology

Weaver et al. (1999) note that many US companies have adopted legal compliance mechanisms, which address ethics but much of this activity had been attributed to the Sentencing Guidelines. As suggested by the revised Sentencing Guidelines, it is clear that some combination of the rules-based and principles-based approaches are required for effective corporate governance.³ Sama and Shoaf (2005) point out that rules-based approaches, although inherently universalistic, can establish a minimum standard for ethical conduct (but by their very nature, are narrow in scope to cover all situations), while principles-based approaches may be too broad to interpret at a micro level for the individual decision-maker. The authors who attempt to reconcile rules-based and principles-based remedies with reference to integrative social contracts theory, also observe that rules-based approaches are more commonly found in societies (or organizations) favoring bureaucracies, while principles-based approaches are more commonly found in societies characterized by strong and operative social controls. According to David Brown, Principal for governance and board issues at The Conference Board of Canada, the financial services sector is one that may operate under a stricter, rules-based regime (comply or else scenario) since there is a high degree of public interest and any collapse or failure impacts millions of individuals, and given the complexity of the sector, one does not want many loopholes. On the other hand, principles-based regimes (comply or else scenario) may work better in sectors where there is a lower degree of complexity and less public interest such as family-owned companies and corporations with one or just a small number of controlling shareholders as it is appropriate to have some flexibility in applying governance practices (Jackson, 2004). In either scenario above, a rules-based approach can be seen as a necessary condition and a principles-based approach can be viewed as a sufficient condition for effective governance.⁴ Table I below shows the general characteristics of rules-based and principles-based approaches. It is therefore the operating environment (ODNA) that needs to be addressed in developing effective corporate governance, not only as a preventative measure to minimize or avoid

TABLE I
Rules-based vs. principles-based approaches: characteristics^a

Rules-based	Principles-based
Complies with a specific set of procedural requirements (e.g., checklist of dos and don'ts) Comply or else	Emphasizes "doing the right thing" by appropriate means Corporate behavior is guided by a focus on end results (objectives-oriented) Comply or explain
More commonly found in organizations favoring bureaucracies Follows the letter of the law	Found in organizations with strong and operative social controls Follows the spirit of the law
Represents the minimum of ethical standards Emphasizes an analytical approach	Includes and extends the legal domain to issues that law does not address Emphasizes communication
Emphasizes details and enforceability Tends towards the quantitative, objective end of the spectrum Necessary condition for effective governance Requires constant monitoring Focuses on detection Tends to be fear-driven More explicit, detailed, prescriptive Tends to consider issues in black and white Promotes blind obedience Mandatory Easier to implement Addresses proximate causes	Tends toward the qualitative, subjective end of the spectrum Sufficient condition for effective governance Develops over a longer term Focuses on prevention Tends to be values-driven More implicit, broad Considers issues in the "gray" areas Promotes alignment with values Discretionary More difficult to implement Addresses ultimate causes

^aSee for example, Arjoon (2005b), Sama and Shoaf (2005), Arnott (2004), Greenfield (2004), Jackman (2004), McKee (2004), Saner (2004), Securities Week (2004), Wallenberg (2004), Guinn (2000), Jennings (2000), Seglin (2000), Kleining (1999), and Paine (1994).

corporate abuses, but also as a mechanism to enhance and improve performance.

Trevino and Brown (2004) note that research suggests that formal ethics and legal compliance programs can have a positive impact, but does not by itself, guarantee an effective corporate governance program. They also note that for formal systems to influence behavior, they must be part of a larger, coordinated cultural system (the ODNA) that supports ethical conduct. The authors conclude that the overarching goal should be to create a strong ethical ODNA supported by strong ethical leadership, and recommend the following guidelines for effective ethics management: (1) understand the existing ethical culture, (2) communicate the importance of ethical standards, (3) focus on the reward system, and (4) promote ethical leadership throughout the firm.

Grojean et al. (2004) also examine the critical role that organizational leaders play in establishing a values-based climate through conveying the importance of ethical values to members and in establishing the expectations regarding ethical conduct that become engrained in the ODNA. Trevino et al. (1999) conclude that a firm's approach to ethics and legal compliance management has an enormous impact on employees' attitude and behaviors; in particular, specific characteristics of the formal ethics or compliance program matter less than broader perceptions of the program's orientation towards values and ethical aspiration. They found that what helps most are consistency between policies and actions as well as dimensions of the organization's ethical ODNA (ethical leadership, fair treatment of employees and open discussion of ethics in the

organization), and what hurts the most is an ethical ODNA that emphasizes self-interest and unquestioning obedience to authority and the perception that ethics or compliance programs exist only to protect top management from blame.

Clearly, in an effective ethical ODNA, there may be less reliance on rules to provide professional and ethical conduct since the values of the organization would be exemplified by the senior executives (the so-called tone at the top) and would permeate throughout the organization. The challenge, therefore, is to strengthen the ODNA through compliance mechanisms for effective corporate governance. The crisis of corporate abuses reflects a crisis of culture (ODNA); a culture of governance to encourage ethical behavior, to adhere to legal requirements, to align corporate and individual values, to promote the interest of the company and its performance. It is important to note that any attempts to develop an approach that combines rules-based and principles-based and thereby avoiding the “separation thesis” (Freeman, 1994), must recognize not only the integration of ethics into the approach, but also its primacy. For example, Trevino and Nelson (1999, p. 16) acknowledge that the domain of ethics includes and extends beyond the legal domain. Sama and Shoaf (2005) conclude that improvements (in ODNA) are effected and determined largely through rules and laws that adhere to overarching, generally agreed upon principles of impartiality, transparency, accountability, responsibility, truthfulness, and respect for rights; they argue that the Sarbanes–Oxley Act would be stronger if it focused on the principles it is trying to forward.⁵ Arjoon and Gopaul (2003) argue that ethics is the foundation, in that, other branches of knowledge making up culture look up to ethics since they cannot avoid altogether their ethical aspects. In other words, solutions must always be subjected to a higher criterion of the ethical order.

One of the critical findings of the 2005 National Business Ethics Survey (NBES) on the state of ethics in the workplace released by the Ethics Resource Center (2005) is the importance of the ethical ODNA. The NBES which surveyed over 3000 workers in 48 US states, found that employees in organizations with a weak (ineffective) ethical culture reported a much higher level of observing at least one type of misconduct than employees in an

organization with a strong (effective) ethical culture; and employees in organizations with a strong ethical ODNA were more likely to report than those in weak culture organizations. The study found that the ODNA had a stronger impact on the results or outcomes reported by employees than did formal ethics and compliance programs. There is sufficient evidence pointing to the ODNA as a purveyor of ethical norms through principles-driven rules. In other words, effective governance (an ethics and compliance program) makes a difference, but its impact is related to the ODNA in which it is situated.

In order to reconcile and integrate rules-based and principles-based concepts, this paper employs dialectical reasoning that attempts to discover the truth about something by working one’s way through a series of partial truths. It involves and begins with the antagonism between opposing ideas or approaches, and consequently retains what survives (Stewart, 1996). Dialectic has had a long and important role as a method of philosophical argumentation. It is attributed to Socrates as the originator of the dialectical style of seeking truth – the so-called Socratic method. The Socratic method is an approach to discover knowledge through criticism, questioning and self-examination. It begins with a person who believes that he knows the meaning of some particular concept. Then through a dialogue of intense questioning by an antagonist, they come to realize that they lack the precise knowledge of the matter under enquiry. Dialectic received its highly formalized expression in the philosophy of the German idealist philosopher, Georg Hegel (1770–1831). Hegel used dialectical reasoning in propounding a form of idealism in which the mind makes reality, and all thought is an emanation from and a manifestation of one absolute idea (the existence of an objective truth – the Idea – that transcended and controlled the course of history). His philosophical procedure consists of thesis (the statement of an idea), antithesis (the denial of the statement), and synthesis (the union of the thesis and the antithesis). While refuting his theory, another German philosopher, Karl Marx (1818–1883) adopted Hegelian dialectic in proposing a materialistic conception of history as determined by the active involvement in the struggle for justice (praxis). In Marx’s view, the proletariat (lower class) will rise against its oppressors

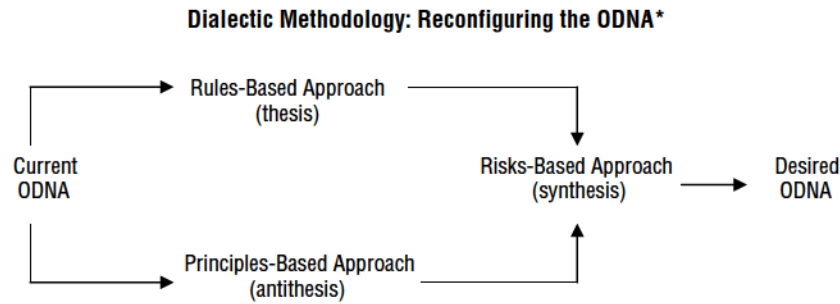


Figure 1. Dialectic methodology: Reconfiguring the ODNA. Improvements in the ODNA are affected and determined largely through rules that adhere to overarching principles (principles-driven rules) and result in better performance.

(the ruling class) and through class struggle, society will be emancipated. In this case, the thesis is primitive collectivism, the antithesis is private property, and the synthesis is communism (Higgins, 1958).

An application of dialectic reasoning in management is developed by Rusaw (2000). This paper draws on critical theory to show how organizational ideologies operate in resistance to change that is engendered by training. It introduces critical theory's views of dialectical reasoning and its relationship to oppression in human thought and action. Embedded within the attempted change program is the struggle for a new synthesis of meaning in interpersonal relationships (thesis) and the countervailing management resistance (antithesis). In this paper, the dialectical methodology is employed (see Figure 1) to show the process of reconfiguration of the ODNA. The thesis and antithesis represents the partial truths or best practice (i.e., what works effectively in a particular organizational culture with respect to rules-based and principles-based approaches, respectively), to form a synthesis (risks-based approach – what was best of both thesis and antithesis). It should be noted that there can be a process of dialectical development in which the synthesis can form the basis of a new thesis, and consequently, a new antithesis can be developed, resulting in a new synthesis, and so on. In other words, the reasoning process can be reiterated until it reaches an acceptable or reasonable outcome. Although there has been few applications employing dialectical reasoning in business research, this technique can be extremely useful in isolating ethical issues and integrating them into the business process.

In an informal and intuitive way, dialectic reasoning has been employed in arriving at proposed optimal balances between rules-based and principles-based mechanisms (see for example, Jackson, 2004; Sama and Shoaf, 2005; Saner, 2004). What is original about the conceptual framework is its formal integration into a dialectical methodology to link various concepts as identified in the paper, and those developed by others in the literature. The dialectical methodology captures the reasoning process of the spectrum of the pendulum swing from rules-based approaches to principles-based approaches.

Based on a review of public documents of companies that recently faced major ethics scandals, Gebler (2005) gives an example of an organization in crisis that has the following current ODNA: (1) despite positive values such as “mission focus” and “teamwork,” the organization neither has values that support a strong financial foundation nor the systems and processes needed to keep the organization moving forward, (2) strong egos that can lead to “information hoarding” and “empire building,” (3) lack of trust reflected through values such as fear, blame and power, (4) aggressive tactics of managers are insulated from review and critique through fear and intimidation, (5) looking good is more important than substance, (6) creating new business models rewarded over maintaining the store, and (7) innovation pursued at the expense of managing basic systems, controls, and processes. Gebler (2005) also gives an aspirational benchmark of an organization with the following desired ODNA: (1) organizational values are reflected in the personal values of its leaders, (2) employees want to be the best of the best, (3) open

and authentic communications, (4) dynamic and committed culture, (5) respect for the individual, (6) new markets and new ways of doing business, and (7) decisions based on integrity.

The ODNA

Faced with questions about their ability to prepare managers to lead organizations responsibly and ethically, in 2004, the Association to Advance Collegiate Schools of Business (AACSB), the international accrediting body for business schools, issued new guidelines, which focus on four areas for the integration of ethics and governance into global management education: (1) corporate social responsibility, (2) ethical leadership, (3) ethical decision-making, and (4) corporate governance (Gentile, 2005). The reforms triggered by the many recent scandals in prominent corporations have strongly underscored the need for improved attention to the importance of a renewed emphasis on an effective corporate governance strategy. These scandals have revealed corporate cultures of corruption and deception that have undermined public confidence in corporations and the financial markets. In particular, regulatory and legislative reforms resulting from these failures have emphasized the importance of focusing on organizations' ethical DNA. An ODNA is a metaphor for the underlying factors that define an organization's culture and help explain its performance. An ODNA holistically means weaving intelligence, decision-making capabilities, and a collective focus on common goals widely and deeply into the fabric of the organization so that each person and unit is working smartly and working together (Aguirre et al., 2005). The metaphor of ODNA attempts to apply the all-inclusive biological characteristics known as DNA to the culture of organizations (Verschoor, 2004b). This metaphor was first coined by the SEC Chairman William Donaldson in a speech addressing the National Association for Business Economics, March 2003: *"I hope that you will agree that the most important first step for a board grappling with the issues of corporate governance is not debating the issues of structure. Rather, it is defining the parameters of an inviolate corporate culture by answering simple questions: What kind of moral compass do we want guiding this corporation?"*

What ethical standards do we want embedded in this corporation's DNA? How will we protect the long-term interest of our investors?" The Chairman concluded his remarks on the subject of good corporate governance by strongly emphasizing the importance of ethics to appropriate corporate culture. Again, in his remarks at the 2003 Washington Economic Policy conference, the SEC Chairman emphasized the importance of ethics in organizational culture: *"The culture of ethics that the Board of Directors articulates for the organization must permeate the spirit and very DNA of the corporate body itself – from top to bottom and from bottom to top."*⁶

The issue of the corporate culture approach to management has been popular among management theorists since the 1980s. A corporate culture or ODNA is defined in terms of the values that guide the corporation's conduct; the culture is effective⁷ if these values are clearly visible and emphasized so that they give meaning and purpose to corporate activity (Deal and Kennedy, 1982, p. 5). Basic values of a strong ODNA guide its strategy and organization. In strong corporate cultures, guiding values reflect the basic beliefs of top management and shape the values throughout the firm. Such corporate cultures are characterized by *flexibility and innovation* (Lorsch, 1986, p. 104), and their employees are trained in *constructive confrontation* or *creative conflict*, which teaches them to deal effectively with conflict in constructive rather than destructive ways (O'Reilly, 1989, p. 14). An important feature of such ODNA is that it allows employees to cope with change more effectively than bureaucratic firms since people are clearer about what is required because conduct is guided by known values (Pascale, 1985, p. 34). On the other hand, in weak ODNA firms, much of one's time and energy is spent on corporate politics, both in order to get things done and to solidify one's position and to advance. Pascale (1985) concludes that integrity and communication thrive in a strong culture rather than a weak culture. More recent articles that examine the effect of ODNA on corporate governance are Buck and Shahrin (2005), Marnet (2005), Paredes (2004), and Standford (2004).

The ethical superiority of strong ODNA forms emphasizes that basic values such as respect for the individual rather than strategy is the essential factor in corporate success. Guiding values of a strong ODNA can be used to harness human energies,

loyalties, needs for identifying with something praiseworthy, and warm feelings of a community effort in a specific direction. Howard (1985, p. 119) argues that the emphasis on ODNA entails concentrating on worker motivation and morale and, in this way, management can win employee commitment and participation in the corporation's goals. It, therefore, becomes a matter of developing an appropriate ODNA so that people have the ability and organizational support to make decisions that are not only effective but also consistent with values and principles. Gorelick (2004) points out that employees of ethical companies do not engage in ethical behavior because they have been given a code of conduct, rather, they embrace the underlying values in such a code because they are part of the culture that surrounds them.⁸

ODNA involves the ethical and behavioral standards, how they are communicated and reinforced in practice. Verschoor (2005) points out that allowing an organization's environment to determine how ethics will be practiced is a recipe for disaster in terms of performance and violates best practice. Ethics should be viewed as a determinant of compliance processes and as a component of sustainability, and should be considered a critical factor in an ODNA. A study by PR Newswire (2002) on how strong ethical ODNA can prevent crises and boost profits, points out that ethical behavior does not exist in a vacuum, but is part of a broader organizational culture that develops over time. Recent scandals do not merely represent unethical acts, but broken organizational cultures that allow this kind of activity to occur. The study concludes that the question is whether corporate performance stems from the ethical positions of the company and the mutual trust between employees and management, or whether having a clear and articulated ethics code backed by appropriate action is simply part and parcel of being a high-performance company. If the former, it is in the interest of all companies to "get ethics" for the sake of its bottom line. If the latter, building the right corporate culture is the only way to go.

Deloitte and Touche (2003) strongly advocate that one of the biggest risk factors for companies today revolve around the ODNA: if employees are afraid to raise issues or challenge management, the company is doomed; and if management does not listen to employees, they place themselves at grave

risk. Benchmarks from a cultural assessment process can become the foundation for an ethics and compliance program, as well as a solid control environment, which can withstand scrutiny and propel companies to new heights of success. Such a cultural assessment⁹ can (1) help open lines of communications, (2) help reduce the risk of exposure along with the resulting legal costs, officer and director liability, and costly loss of reputation or brand, (3) put mechanisms in place to provide early warnings of deviations from guidelines and regulations, and (4) create or expand a culture of trust, enthusiasm, and integrity — critical attributes that can produce measurable results in terms of productivity, employee and customer satisfaction, and ultimately, brand equity. Johnson (2004) captures a profile of an ODNA by the following five characteristics: the extent to which (1) leaders and members alike embrace the organization's core purposes and values, and are adept at preserving them while stimulating progress, (2) leaders and members hold themselves responsible — and others accountable — to high standards, (3) leaders encourage members — and members welcome and accept the opportunity to participate in organizational affairs, (4) leaders and members have the knowledge they need, when they need it, and (5) conflicts and mistakes made in good faith are seen as opportunities for learning and growth. Johnson (2004) also points out that some measurable factors of an ODNA are (1) perceiving that leadership cares about ethics/values as much as the bottom line, (2) feeling safe to deliver "bad news," (3) feeling being treated fairly, (4) feeling pressure not to compromise values, (5) believing ethical behavior is rewarded, (6) believing unethical behavior is punished, and (7) whether the organization has an employee, community, or self-interest focus.

Another initiative in promoting an ethical ODNA is stated in the US Committee of Sponsoring Organizations of the Treadway Commission (COSO) principles in which integrity and ethical values are critical to the establishment and maintenance of effective management control. COSO views the control environment as the most important component of management control. The AICPA audit guide on the subject of control states: "*Integrity and ethical values are essential elements of the control environment — and are the product of the entity's corporate culture. These*

values include management's actions to remove or reduce incentives and temptations that might prompt personnel to engage in dishonest, illegal or unethical acts — these values also include the communication of entity values and behavioral statements to personnel through policy statements and codes of conduct and by example" (Verschoor, 2005).

Paine (1994) notes that managers must acknowledge their roles in shaping organizational ethics and seize this opportunity to create a climate that can strengthen the relationships and reputations on which their companies' success depend. Executives who ignore ethics run the risk of personal and corporate liability in today's increasingly tough legal environment. Verschoor (2004c) also points out that such an environment gives corporations the opportunity to utilize the resulting changes to achieve significant benefits. Consequently, the initiatives are triggering widespread re-evaluation of what is perceived to be the best practices to manage and measure organizational performance. The Financial Services Authority (FSA), designed as an umbrella regulator to oversee the roles and responsibilities of existing regulatory bodies in the UK, recognizes that regulations do not necessarily ensure ethical business behavior. The FSA wants firms to develop their own internal ethical ODNA. Ruvigny et al. (2000) point out that two aspects of the ethical ODNA should be emphasized: (1) principles of behavior for individuals (certain individuals, by virtue of the function they perform within the organization, will become subject to specific behavior), and (2) responsibilities of senior executives (the chief executive will be ultimately responsible for the appointment of responsibilities among senior management and also for the operations of appropriate systems and procedures of control).

Neilson and Pasternak (2005) of Booz Allen Hamilton developed a framework to give organizations an easy, accessible way to identify and remedy the roadblocks that impede results. They identify seven principal types of ODNA's (four healthy and three unhealthy) and four basic building blocks (like the four nucleotides that comprise human DNA) of ODNA that are aligned in them. The seven types of ODNA are: (1) *passive-aggressive* (builds consensus to make major changes but never gets implemented), (2) *fits-and-starts* (lacks direction so employees do not often pull in the same direction resulting in an over-extended organization on the verge of spinning out of control), (3) *outgrown* (reacts slowly to market

developments but it's just too hard to run these ideas up the flagpole), (4) *over-managed* (burdened with multiple layers of management), (5) *just-in-time* (not always proactive but demonstrates an ability to "turn on a dime" when necessary), (6) *military precision* (creates the overall effect of fluid and consistent execution — flying in formation), and (7) *resilient* (flexible, forward-looking). The four building blocks of any ODNA are: (1) *decision rights* (the underlying mechanisms of how decisions are truly made), (2) *information* (without accurate and available information, decision-makers cannot make quick, smart moves, and employees do not receive recognition), (3) *motivators* (include incentives that prompt people to care and achieve), and (4) *structure* (the logical outcome of the choices made regarding the other three building blocks). In a report diagnosing the health of today's organizations, Aguirre et al. (2005), using this ODNA framework, surveyed nearly 50,000 individuals around the world and found that most organizations were "unhealthy" meaning they cannot convert strategy into action. The most common impediment to execution was a "passive-aggressive" ODNA. The data set represented 23 industries from 100 countries. The key findings of the report are (1) most organizations are unhealthy, (2) some countries are healthier than others, (3) healthy companies reap better results, (4) all industries suffer significant organizational dysfunction, (5) unhealthy organizations lack clear decision rights, (6) insufficient information flows plague unhealthy organizations, (7) larger organizations are less healthy, and (8) altitude (senior executives) determines attitude.

US corporate compliance programs have also exploded in the healthcare sector which, like its counterpart in the business sector, suffers from fraud and abuse, unethical referral and kickback schemes, and violations of the US Emergency Medical Treatment and Active Labor Act. Healthcare providers have implemented corporate compliance programs which are subject to the revised Sentencing Guidelines. In response to the changing marketplace for healthcare, many leaders of ethics and mission programs in healthcare are attempting to develop corporate integrity programs that link their institutions' ethics programs with their corporate compliance efforts. Guinn (2000) identifies the risks and benefits of such programs. Several risks identified are: (1) leaders may hesitate to participate in the

effort based on a belief that they are inadequately trained to do so, or out of fear that it will distract from their efforts to meet the needs of specific individual patients, or fear of being labeled “the ethics police,” (2) the ethical consultant may allocate blame especially when they become deeply engaged in legal liability issues, (3) it may lessen focus on legal compliance and increase the risk of corporate liability, (4) the “tacked-on” factor (inclusion of ethics may be seen as superfluous additions to what is essentially a program focused on legal compliance, (5) a failure to integrate adequately ethics into corporate integrity programs represents not just a lost opportunity to advance ethical and mission concerns, it can result in actual harm to the ethics and mission programs, (6) an excessive focus on meeting only the requirements of law breeds cynicism among employees and can also represent a potential harm to the corporate efforts to avoid legal liability, and (7) the organization may lose the capacity to anticipate changes in law, which is fluid and subject to change. Guinn (2000) also provides a series of recommendations about how to create an integrity program that supports an organization’s mission and values: (1) the values of ethics and mission must be made concrete and practical in the same way as are legal requirements of a compliance program, (2) employees need to be trained and to think creatively in order to confront the inevitable “gray areas” of ethics, (3) the organization must consider how organizational systems and procedures support or hinder ethical and mission-based values at the same time and in the same way that it evaluates those structures for their impact on legal compliance, (4) the organization must actively engage its employees in identifying and reporting improper behavior as this helps them in thinking about the meaning of mission and ethics, and allows them to talk freely about their concerns (otherwise ethical concerns and problems may go undetected), (5) although many studies show that the tone at the top set the ethical culture, an integrity program must have the “buy-in” at all levels, and (6) compliance to ethical standards must have consequences (rewards and reasonable sanctions) otherwise employees may be encouraged to think of the standards as irrelevant.

The US Open Compliance and Ethics Group (OCEG) provides a framework aim at improving organizational values and business operations by

providing guidelines that enhance integrity and ethical culture (Liebesman, 2005). The framework attempts to integrate effective governance, compliance, risk management and integrity into all business practice, and measure effectiveness and performance against an external benchmark. There are four sections that comprise the framework: (1) culture (addresses the need to identify an organization’s internal environment that results in an effective compliance and ethics program), (2) planning (includes scope/objectives, event identification, risk assessment, and strategy related to the continual improvement), (3) responding (covers the active functioning of the organization including code of conduct, policies/procedures, training, reporting, human capital, communication, managing issues, investigations, crisis management, information management, technology/infrastructure and vendors), and (4) evaluating (includes evaluating the plan, performing the evaluation and communicating the evaluation result). The OCEG framework, therefore, shows whether an organization has an effective process and culture in place to control and mitigate rules-based and principles-based related risks in order to develop an effective compliance and ethics program.

Measuring corporate governance

As well as giving general protection to stakeholders, an appropriate or effective governance structure should lead to better performance (financial, environmental, social responsibility). There, then, ought to be a clear connection between the quality of a company’s earnings and financial transparency and its corporate governance practices. Generally, two categories of studies can be identified: (1) those that focus on structural measures of governance or governance ratings, that is, rules-based governance, and (2) those that incorporate the ethical ODNA. Larcker et al. (2005) note that most ratings and structural measures examine factors related to board and committee structures and processes, disclosed executive compensation, anti-takeover provisions, concentration and distribution of equity ownership. Such rating measures are observable and do not include, for example, insights into the ODNA such as an assessment of whether objectives are consistent with stakeholder goals, whether various constituencies are directing the right questions to top

management, the number of board meetings, the composition of the board and sub-committees, the age of the directors and other structural measures sufficient to capture the complex nature of how an effective board should work. It is important to measure the ethical ODNA to effect the desired changes since (1) it can encourage ethical conduct and a commitment to legal compliance, (2) program activities can be better designed (e.g., culture influences, communication styles, training packages), and (3) the ultimate measure of success is an ODNA fully committed to core beliefs, standards, procedures and expectations (Johnson, 2004).

Studies using structural measures

Larcker et al. (2005) identify a study using data obtained from four major intermediaries that specialize in rating corporate governance: the US organizations Governance Metrics International (GMI), Investor Responsibility Research Center (IRRC), Institutional Shareholder Services (ISS) and The Corporate Library (TCL). No evidence was found that the summary ratings were associated with stock returns.¹⁰ Alternatively stated, an investment strategy based on the governance ratings was not a profitable one (some evidence that governance ratings are associated with the level of future operating performance was found especially with the TCL data). Specifically, statistical tests revealed no difference in the returns to an equity investor between the portfolios for companies with “good” ratings and “bad” ratings for board effectiveness which was based on board composition, CEO compensation, shareholder responsiveness, accounting quality, strategic decision-making, litigation problems and takeover defences.

The lack of a robust pattern between popular governance ratings and future performance should raise questions about the assertion that governance changes will improve shareholder returns. There were several limitations to the analysis that was pointed out. Governance ratings are overall scores and somewhat unsophisticated aggregates of multiple measures of governance structures. To address this limitation, Larcker et al. (2005), conducted another study on the relation between corporate governance and company value. This involved a detailed statistical analysis of 2106 US companies with fiscal years

ending between June 2002 and May 2003 and used 39 different structural measures of corporate governance. Using a variety of statistical techniques to assess whether these 39 measures actually explained differences in managerial behavior and organizational performance similar to the analysis with the governance ratings, no association was found between the governance measures and changes in operating performance.¹¹

Overall, the above results imply either that corporate governance is of little or no importance or that the available structural indicators and ratings are not especially useful for measuring it. A subjective analysis based on interviews with leading portfolio managers representing large actively managed US and international equity portfolios about their evaluation of governance ratings also revealed that there were consistent reports that measures of governance were not effective in generating excess returns (alpha) for equity portfolios. Several issues were highlighted: (1) governance is a multi-dimensional construct that is difficult to measure and reduce to a summary statistic (the failure to find an association with stock returns may simply reflect measurement error), (2) there is only a limited period for which governance ratings are available and this makes it impossible to do the type of back-testing that quantitative equity managers typically undertake, (3) the signals that these portfolio managers are already using in their asset allocation decisions may be subsuming any ability of the governance measures to predict future returns, and (4) for measures of governance to be associated with future stock returns, it must be the case that these measures provide predictive information that is not priced by the market in a timely and efficient fashion.

Studies emphasizing the ethical ODNA

Recently, there have been several studies that have shown increased awareness and adoption of good corporate governance, including both legal and ethical compliance mechanisms. These measures reveal serious attempts to restore full public confidence in the financial and economic systems through increased levels of transparency of corporate conduct, financial reporting and to strengthen the accountability of corporate executives and board

members. These studies show that what makes a difference between a company in which shady dealings are acceptable and one that maintains ethical boundaries are adherence to principles and values. Companies are increasingly being held accountable for their behavior which can directly affect its share price, and indices such as the FTSE Gold Index and the Dow Jones Sustainability Index have sprung up to help them decide where to put their money. A study comprising FTSE 100 and FTSE 250 companies by the London-based Institute of Business Ethics and the UK consultancy firm Fishburn Hedges revealed that although there is stronger public awareness of business ethics issues (e.g., of the 100 FTSE companies, 91 have ethics codes, up from 73 four years ago; more than 25% of CEOs said that they or the boards were directly responsible for ensuring ethical behavior in their companies, up from just 16% in 2001; in the past 2 years, 63% had revised their codes; and in the past 3 years, 41% had used them in disciplinary procedures), there has been no growth in workforce training in the past 8 years, few companies talked to external stakeholders about their codes and 50% of companies with ethics codes did not provide training for staff in how to apply them (even though 60% of the companies required employees to obey the codes as part of their contracts). The report also suggested that senior managers did not want to spend money on ethics training programs because they did not think they had a direct impact on profitability. The authors of the report, Simon Webley (Research Director of the Institute of Business Ethics) and Martin Le Jeune (Head of Corporate Responsibility at Fishburn Hedges) noted that this was the same argument used a decade ago to restrict investment in safety training that is now regarded as a standard aspect of business. The report concluded that expecting a business ethics policy to have any noticeable effect when no training is provided does not make any business sense. Companies are therefore out of step with governance issues, which they ignore at their own peril; at a time when the reputation of business is under threat, this is a major missed opportunity (Maitland, 2005).

Introduced in June 1998, the UK Combined Codes are consolidated principles and recommendations of the Cadbury, Greenbury and Hampel reports on corporate governance. This revised code

has strengthened the expected levels of disclosure and focuses on promoting independence, accountability and transparency, which would contribute toward mitigating the risk of corporate collapse. Another survey by international accountants Grant Thornton, showed that almost two-thirds of the largest companies are fully compliant with the Combined Codes and their smaller peers are catching up fast. The survey of FTSE 350 businesses found that significant progress was being made in embracing broader governance concepts as investors and suppliers pressured boards to act (94.6% of companies said they had established processes to monitor their social, environmental and ethical performance compared with 43.1% the previous year). Although there is still a long way to go to meet best practice, the greatest progress had been made among FTSE 250 companies of which 56% were now compliant, a third more than the previous year; more than double the number of companies claimed to have structures to manage corporate social responsibility (CSR) and social, ethical and environmental issues; and nearly 70% said they were willing to outline their CSR risk (Moules, 2004).

Royal Dutch Shell was ranked the world's most ethical oil company despite the controversy over the misstatement of oil reserves and reshuffle of executives at Shell, according to a study of 10 global oil giants by Madrid-based ethics rating firm, Management & Excellence (M&E). To prepare the ranking, M&E used a quantitative evaluation system in which all calculations were compared with relevant industry benchmarks, and conducted three kinds of analysis to generate the final rating: (1) assessment of 300 areas covering a company's activities in ethics, policies, successes and failures, (2) a measure of volatility likely to affect key financial performance areas based on similar ethical problem cases, and (3) an assessment of key financial performance indicators that are affected by ethics such as economic value added, employee productivity, price-earnings ratios and return on equity (Financial Times, 2004).

A study which uses Market Value Added (MVA) (a metric used to measure long-term financial performance by examining the amount of shareholder wealth created by a company since its inception) provides powerful new evidence supporting the belief of many investors that firms having attributes of strong corporate governance, including

better-quality ethics and compliance programs (programs that are based on core values that permeate the organization) actually deliver superior financial returns to their shareholders. The study used the MVA amount reported for each corporation in the S&P 500 Index for the years 2000–2004. Analysis of the results of the study showed that, in each of the 5 years, the mean MVA financial performance of companies with the designated superior governance attribute was consistently and substantially higher than that of the remaining S&P 500 companies (Verschoor, 2004a).

The newly created US Business Roundtable Institute for Corporate Ethics,¹² designed to solidify ethics in the decision making in current and future business leaders, released in March 2004, the results of a survey of its member companies which showed 81% of responding companies have boards that are at least 80% independent and 99% have boards that are at least 60% independent (Castellani, 2004). How a company keeps its books is just as important as how it is governed. Lesley and Lacey (2004) provide shareholders with scorecards on corporate integrity and earnings quality for the 30 largest US companies based on market capitalization. The integrity measure rewards companies with underpaid bosses (e.g., Microsoft), outsider-dominated boards (e.g., Johnson & Johnson), and a history of responsiveness to governance proposals from shareholders (e.g., Altria); it penalizes those with antitakeover defenses (e.g., Amgen), problem directors (e.g., Bank of America) and legal or regulatory problems (e.g., Merrill Lynch). The earnings-quality measure rewards companies for having high sums of operating and investing cash flow relative to reported earnings (e.g., Cisco); it penalizes those with lots of non-recurring charges (e.g., Time Warner) or a habit of falling short of Wall Street earnings expectation (e.g., Wells Fargo).

Significant research over the years, provide support for the proposition that good corporate citizenship and social and environmental responsibilities are directly related to superior financial performance. For example, Orlitzky et al. (2003) examined more than 50 published research studies on corporate social performance and corporate financial performance and found a universally positive relationship between corporate citizenship and financial performance. According to a new study released by Oracle

Corporation and the Economist Intelligence Unit, 85% of executives and investors rank corporate responsibility as a central consideration in investment decisions. The study entitled, “The Importance of Corporate Responsibility,” surveyed 136 executives across numerous industries and 65 investors to examine the influence of corporate responsibility in the global business community. One quarter of all Global Fortune 500 companies now produce some type of report that charts their environmental, social or sustainability efforts (PR Newswire, 2005).

The drawbacks of a rules-based approach

The arguments of using a rules-based approach can be traced back to the application of the *casuistic approach*¹³, which gained popularity in the first half of the 17th century. Casuistry is a case-analysis approach to the interpretation of general moral rules and uses a series of cases to ascertain the morally relevant similarities and differences between cases (Audi, 1995). Stewart (1996) points out that the casuistic approach is characterized by a rule-governed approach and suffers from several drawbacks: (1) it leaves open the question of what to do when there is no specific rule to apply to a given situation and so it requires continual growth of rules to cover new situations, (2) as a consequence, it requires another set of rules to help decide what to do when rules conflict with each other, (3) obeying the rules leads to a false sense of having acted ethically through meeting what is minimally required and not fulfilling the spirit of the rules in the first place, and (4) rules-based forms of conduct attempt to look for loopholes as ways of satisfying the technical demands of the rules while still doing things that the rules were intended to prevent. The principles-based approach, on the other hand, searches for principles for guidance, general understandings that help to make moral decisions in a variety of circumstances, and assists in discovering the morally relevant aspects of decisions. In summary, the casuistic approach attempts to develop rules for each specific situation, while the principles-based approach provides general principles to apply to a variety of individual cases and situations.

Greenfield (2004) argues that some people probably knowingly do wrong for whatever reason they

give themselves. It is inconceivable, for example, that Andrew Fastow did not know that he was doing wrong in and through Enron, that Denny Koslowski did not know that it was wrong to “forgive” millions of dollars in loans made by Tyco to him and other executives, or that it is extremely unlikely that Martha Stewart did not know that it was wrong to act on a stock tip from the president of ImClone on selling ImClone shares. Swinson (2004) argues that the prospects of continuing reforms achieving greater trust in the corporate sector may be doubtful. As regulations create an environment that becomes more restrictive, there may be greater likelihood that this encourages distrust since it reinforces the view that if increased regulation is justified then the people being regulated must be suspect (guilty before proven innocent). Arnott (2004) cites some examples that suggest that too often society changes the rules of doing business after the fact and seem to enforce the law unpredictably: (1) Martha Stewart is jailed, not for insider trading, but for lying about her actions (how many others have engaged in insider trading on a far larger scale while hiding behind a legal fig leaf of materiality?), (2) mutual funds were under attack for permitting what appeared to be legitimate trades by long-term investors but which later turned out to have been rapid-fire trades, (3) some Wall Street analysts have seen their careers ruined for truthfully stating their ultimately correct views, while others have reaped immense rewards by touting stocks that they wouldn’t touch with the proverbial 10-foot pole, (4) Jamie Otis is sentenced to 24 years in prison – more than he would have faced for premeditated murder – for accelerating future earnings at Dynegy, and (5) some who may have perpetrated vast funds for personal gain remain free while countless others still engage in legal forms of aggressive earnings management.

Undoubtedly, appropriately designed rules-based strategies or approaches can and do play a critical role in supporting healthy financial systems. Indeed, Wray (2005) identifies the use of some of the new tools provided to prosecutors by the Sarbanes–Oxley Act and strategies and policies developed by the Corporate Fraud Task Force.¹⁴ (1) brings the collective resources and expertise of federal agencies to bear earlier in order to complete an investigation and initiate prosecution more expeditiously, (2) segments complex investigations into

smaller, more manageable portions that can be investigated and prosecuted promptly and are more understandable to investigators, prosecutors and juries, (3) uses aggressive and innovative means to obtain corporate cooperation before criminal charges are instituted, (4) prosecutes those who facilitate fraud and obstruct investigations, either in separate criminal proceedings or in the underlying corporate fraud prosecution, and (5) aggressively pursues civil and regulatory enforcement action, often in proceedings parallel to criminal prosecutions and investigations. Lorsch (2005) points out that there has been a significant improvement in boards’ functioning in recent times since new laws, regulations, guidelines and rising investor and public expectations have had a positive impact: (1) many boards are less under the thumb of their CEO than they once were, (2) boards are trying more seriously to govern their companies, and (3) a set of best practices has emerged that are documented in country corporate governance codes, stock exchange listing requirements, and company annual reports.

A properly designed and balanced rules-based approach can therefore create a strong ethical ODNA, especially regulations that are based on ethical drivers that sets standards about personal and corporate liability. A rules-based approach can provide more comparability and standardization, provide confidence to regulators and others that corporations in the same industry are presenting their accounting information in the same fashion, all of which limit opportunities for creative or questionable accounting practices, according to Norman Marks of Maxtor Corporation (Jackson, 2004). However, it is clear that a rules-based approach will never be able to keep up or be enough to ensure that there will be no more scandals or questionable deals, and more legislation will not prevent corporate fraud, conflict of interest, and poor business judgment. Jackman (2004) discusses some key questions that ought to be considered in addressing the issue of a rules-based approach: What is the purpose of regulation? What are we really trying to achieve? What should the world look like after it has been regulated? What should the outcomes be? Arjoon (2005b) discusses the distinction between legal (rules-based) and ethical (principles-based) compliance mechanisms and shows that the former has clearly proven to be inadequate as it lacks the moral

firepower to restore confidence and the ability to build trust. Below are some negative aspects of rules-based approaches.

Increased cost of doing business

Research by the London Stock Exchange and the UK Social Investment Forum has shown that listed companies spend an average of seven working days of an employee's time each month replying to questionnaires from government, rating agencies, investors and consultancies about their social responsibility and governance practices (Financial Times, 2004, April 5). Companies have to accept the form-filling as a cost of doing business as the price of entry and to address reputational risk. Kenney and Nielson (2005) point out that it does cost money to implement internal auditing practices, additional personnel, additional work and outsourcing to conform to the new mandates, but it is far better to invest in good practices that support accountability and ethical behavior.¹⁵ Recent evidence from the seventh annual Corporate Reputation survey conducted by Hill and Knowlton and the Economist Intelligence Unit, of leading global businesses throughout North America, Europe and Asia reveals that of 175 senior executives: (1) only 8% feel the task of complying with the new financial disclosure and corporate governance standards poses a real challenge to running a competitive business, (2) 45% say the compliance burden is "heavy" but manageable, and (3) 48% say that the burden is reasonable (Teller, 2004).

Excessive emphasis on rigid "box-ticking" may deflect attention from the critical task of improving the competitive environment which can go a long way to improving transparency and accountability (Wallenberg, 2004). Enron is a case in point, in which the company ticked off all the boxes and would have met the Sarbanes-Oxley requirements (Enron complied with some 428 financial regulations): it separated the Chair and the CEO positions, recruited a distinguished roster of independent directors and had an audit committee consisting exclusively of non-executives. However, in Enron's case, the independent directors were not so independent as some of them were affiliated with institutions that benefited substantially from the Enron

largesse (Berenbeim, 2004). Outside directors are generally recruited by insiders; executives serve on each other's Board of Directors and Compensation Committees (Greenfield, 2004). There are several other problems associated with independent directors. The basic idea underlying independence is that most directors ought not to have any connection with the company in order to ensure that boards are objective and have no conflicts of interest. Lorsch (2005) points out several problems: (1) boards are usually made up of directors with little current or past knowledge about the company's industry or businesses, (2) independent directors are truly part-timers; they have other day jobs that limit the time they can realistically devote to each board, consequently, well-intentioned directors find that they have insufficient time and knowledge to perform their jobs well, (3) their lack of knowledge about the complexities and underlying economics, compounded by the quality of information (too much, poorly organized, not clear about critical issues, lack of clarity of legal and additional duties, unsure of purpose) can result in no clear criteria to use in determining how to allocate their time, and (4) directors focus on whatever issues the management feels are most pressing and on what they have traditionally done. Petra (2005) argues that the belief that independent directors will monitor the actions of management and ensure that management decisions are made in the best interests of the stockholders, may be founded on an assumption that has its roots in public perception and not in fact. Empirical research studies show that the evidence on the association between outside independent directors and firm performance is mixed (Petra, 2005).

Greenfield (2004) illustrates the ineffectiveness of rules in the history of business scandals in the US: "In the 1970s, the issue was the US\$600 screwdriver (defense contracting). The 1980s brought the S&L scandals. In the 1990s, we learned to be wary of arcane financial instruments, and we put Michael Milken (Drexel Burnham), Ivan Boesky (insider trading), and friends in (minimum) security prisons." Greenfield (2004) also points out that to believe that legislation requiring personal sign-off of executives will reduce shenanigans, is to believe that thieves and those who commit fraud would pause at committing a little perjury. He also summarizes the major difficulties with rules-based solutions, which run the risks of encouraging a

passive attitude towards governance issues that can be better served by conscientious principles-based approaches: (1) the more complex compliance becomes, the less likely it will be that even people of goodwill will be able to comply entirely, (2) the “gaming factor” often makes a test of seeing who can circumvent the rules first, and (3) rules are strait jackets in that they are created in response to specific situations, but they are to be used in the future. The promulgation of new laws and regulations, which are often confusing and conflicting, can stifle innovation, driving the best talent away from over-regulated companies (e.g., the “brain-drain” into the hedge fund community), with the result of raising the cost of entry for product innovation and increasing the cost of operations for related industries (Amott, 2004). For example, the UK government, in reasserting its determination to combat tax avoidance, published its third finance bill for 2005 containing a number of measures aimed at multinationals. Hould (2005) reports that tax specialists said the bill risked making Britain a less attractive location for multinational holding companies since: (1) many measures were so broadly drafted that they would capture innocent and legitimate transactions rather than simply targeting abuse, and (2) the finance bill reflects complex anti-avoidance measures which are precisely what business does not need.

Overshadows other essential elements of good corporate governance

The dangers of an overemphasis on a rules-based approach are that: (1) it is not a very lofty aspiration when a company seeks to define its values, (2) it may not set the bar high enough to guide managers away from questionable business practice, (3) excessive or outdated regulations potentially encourage disregard for the law, (4) it challenges all of us since we have the potential to be unethical as none of us is immune, especially those who have proven to be more prone to unethical conduct, (5) it cannot replace the basic requirement for strong business ethics, intellectual honesty and integrity, and (6) it may divert focus from building a sustainable, profitable company to conformance and compliance to avoid penalty (McKee, 2004; Securities Week, 2004). Overwhelming focus on rules-based approaches

could overshadow other elements (open, competitive markets, an ethical tone set at the top, etc.) essential to good corporate governance (Wallenberg, 2004). Another concern is that directors do not spend sufficient time considering and dealing with company strategy as they are spending too much time focused on issues related to complying with new regulations and requirements. Lorsch (2005) identifies complaints that not enough time is being spent on matters of strategy because the board has not paid explicit attention to its role: How do they want to be involved in strategy? What contribution to strategic decisions do they have the knowledge to make? Where should the line be drawn between the board and management on strategic matters? How can the board provide effective oversight of the company’s strategic direction and progress within the limits of time and knowledge?

Can create a culture of dependency

The trouble with regulations is that they can create some fear that results in dependency on rules – this makes it more difficult to consider principles-based approaches, which stress individual responsibility that is grounded in an ethical ODNA and which operates at the level at which core values are attentively established at the top, and communicated and enforced clearly throughout the organization (Wallenberg, 2004). One can easily become enmeshed in the mechanisms and processes of compliance without developing one’s ability to comprehend the underlying principles and apply them in everyday decision-making and judgments (Jackman, 2004). Incoherent and excessive regulations can also make matters worse in that it can make one lose sight of the moral compass of sound ethical principles.

Another consequence of creating a culture of dependency is that rules-based approaches challenge some people to find ways to circumvent issues while the rulebooks keep getting fatter and people still come up with ways to scam the system and shed responsibilities to others (Greenfield, 2004). Jackman (2004) points out that the trouble with regulations is that they apparently give straight answers and this has two effects. Firstly, it tends to reduce practitioners’ willingness to work out answers for themselves by increasing the tendency to look for rules-solutions,

and decreases the number of times practitioners make decisions for themselves. This weakens their ability to make decisions in the future and reduces the likelihood of their decisions based on their judgment (many situations will not be covered by rules). Secondly, in the case where rules may not be sufficiently clear or no answers exist, there is a tendency for inaction. The problem is either circumvented or passed on to others (e.g., the legal department) in which case the decision is delayed.

May result in legalism or legal absolutism

The Sarbanes–Oxley Act, which was approved by the US Congress in July 2002, represents the most comprehensive reforms of business practice of public companies since the US Securities Exchange Commission was created in 1934. The Act gives prosecutors and regulators new means to strengthen corporate governance, to improve corporate responsibility and disclosure, and to protect corporate employees and shareholders. More specifically, the Act requires, upon the pain of imprisonment, that most senior officers of a corporation certify that the firm’s financial statements accurately reflect its financial conditions and operations, that auditors exercise their responsibilities to provide an independent certification of the reliability of the firm’s financial statements, that employees are protected from retaliation from disclosing improprieties, and that corporate information is true and accurate (Wray, 2005). There seems to be a consensus that Sarbanes–Oxley is making a difference on how companies are governed in that the overriding objective was correct, given that investor confidence was low and that it needed some reassurance (McKee, 2004). There is also a renewed commitment to transparency in financial reporting and in support of ethical business behavior: corporate boards are behaving more responsibly, more audit committees are setting their own agendas and spending more time probing into company operations, and management has a renewed sense of responsibility (Tinkler, 2005). However, some concerns are whether the Act would adequately address the more fundamental challenges, given the speed at which it was drafted: Is it too complicated? Is it too expensive to implement? Has it gone too far

in one direction (that is, does it epitomize that *you can legislate morality*)? Will it restore public trust? Does it cover up the real issues? Are there alternatives?

Amott (2004) makes a distinction between legality and morality. The former can be considered by the following questions: Is this action forbidden or permitted under the law? Is there an unintended interpretation of the rules from which I can benefit? Is there plausible deniability so that I can credibly claim innocence? If I am caught, what are the possible consequences? The latter involves single straightforward questions: Is this action right or wrong? Is it independent of culture and universal (e.g., in all religions and cultures, lying is considered bad and the truth is considered good, stealing is considered bad, working hard for one’s recompense is considered good, etc). Amott (2004) further emphasizes that as the business community embraces a more legalistic approach, especially in the US, the more society tries to cure the resulting violations of ethical behavior and scandals with new legal restrictions, often in the face of a wide array of existing laws that would have already addressed the problems if the laws were vigorously enforced. Jennings (2000) notes that best practice should be better than legal practice since the law was never intended to be the maximum ethical standard; it should be the minimum, but it has been moved so that it is the maximum. The window-dressing approach, in fact, attempts to substitute legality for morality as many firms may be concerned with whether they can manage to appear ethical by simply meeting regulatory requirements.

Balancing the risks: risks-based approach

The main challenge in the way forward for effective corporate governance is to strike an optimal balance between rules-based and principles-based approaches.¹⁶ In other words, how can ethical standards be improved without introducing additional legislature or regulatory burdens that can do more harm than good? Can regulations and good business ethics conflict? This is certainly not an easy task to accomplish in practice. The US approach emphasizes a more legalistic or rules-based perspective

TABLE II
Rules-based vs. principles-based approaches: risk assessment^a

	Rules-based	Principles-based
Downside risks	<p>Can force responses regardless of whether it is “true and fair” May have rigidity in the process</p> <p>Too many rules and exceptions can drown principles</p> <p>Companies may simply follow what is stated rather than actually understanding the overall context or principles involved</p> <p>Runs the risk of institutionalizing unthinking behavior and unquestioning obedience to authority</p> <p>May result in legal absolutism or legalism (attempts to legislate conscience)</p> <p>May have conflicting rules</p> <p>Cannot cover all situations</p> <p>Continued growth of rules to cover new situations</p> <p>Leads to a false sense of appearing ethical (“window-dressing”)</p> <p>Looks for loopholes to satisfy technical demands</p> <p>Can result in increased cost of business in the long-run</p> <p>May deflect attention from improving competitive environment and strategy</p> <p>May encourage a passive attitude to governance</p> <p>May make a test of seeing who can circumvent the rules first (“gaming factor”)</p> <p>Not a lofty aspiration when a company seeks to define its values</p> <p>May not set the bar high enough to guide managers away from questionable practice</p> <p>Excessive or outdated regulations may encourage disregard for the law</p> <p>Tendency to look for rules-solution</p> <p>May result in inaction if rules not clear</p> <p>Can lose sight of moral compass</p> <p>Can result in delay as problem is either circumvented or passed onto others</p> <p>May lose freedom to make innovative decisions</p> <p>May be perceived as protecting top management from blame</p>	<p>Runs the risk that people can manipulate information</p> <p>May leave compliance open to considerable variations in interpretations</p> <p>Existing principles may be too broad to interpret at an individual level</p> <p>Ethical “snitches” are poorly regarded in a weak ODNA</p> <p>Can result in increased cost in the short run</p>

Upside risks	More comparability, consistency and standardization	More freedom to present information in a “true and fair” manner
	Provide confidence to regulators	Provides flexibility and room for judgment in different circumstances
	Limits opportunities for creative or questionable practices	Provides more of a behavioral framework that allows corporations to better understand operational rights and wrongs
	Emphasizes form	Emphasizes quality
	Results in a better-informed investor through improved financial reporting	Fewer bright-line tests, less checklist-style detail, better-defined scopes, clearer descriptions of objectives
	Builds a “safe” predictable workplace	Allows for social sanctions to act as deterrents to unfavorable conduct Reflects and develops a dynamic workplace culture

^aSee Endnote 4.

which results in even more layers of compliance reflecting even more layers of regulatory intervention (Jackman, 2004). Simply put, a handbook can grow exponentially and the UK model has quite a way to go before it catches up with its US counterpart. Amott (2004) graphically describes the US scenario as a business community that is afflicted with a small but metastasizing cancer and enquires whether or not we want society to kill the cancer with the sledge hammer of regulation or do we want self-regulatory organizations. Risk assessment is an inherent and ongoing part of an effective corporate governance program. Table II below shows the risk assessment for both rules-based and principles-based approaches.

Jackson (2004) points out that there is a fine line between sufficient regulation and over-regulation, which can be quite as dangerous as under-regulation. Over-regulation or poor regulation can undermine a firm’s or an industry’s ability to do the very thing that regulation is trying to encourage. New regulations and rules are born in response to specific crises and concerns. The strength of that regulation usually is a function of a rather crude cost–benefit analysis of the perceived risks set against the supposed burdens of rule making: balancing the possible impact of detriment with the likelihood of reoccurrence. Ethics, on the other hand, reflect, and in some ways, summarize the expectations of society in setting out a regulatory system. Jackman (2004) developed a Discussion Paper (DP18) for the Financial Services Association outlining three key ethical principles of behavior and accountability: (1) openness and honesty, responsiveness and accountability, (2) commitment to act competently, responsibly and reliably, and (3) relating to others with fairness and respect. From these first principles, questions were developed to flesh out the practical principles and the sorts of scenarios that one may encounter.

A White Paper by PricewaterhouseCoopers (PwC) entitled “Integrity Driven Performance: A New Strategy for Success Through Integrated Governance, Risk and Compliance Management” describes the necessity of balancing governance, risk management, and compliance processes with an emphasis on business integrity, values, and ethics integrated throughout an organization. The paper describes the operations model that is helpful in bringing about integrity-driven performance. It is

founded on three core principles: (1) effective integration of governance, risk and compliance (GRC) processes which fosters a culture of business integrity and accountability, (2) integrated GRC processes should link to value and coordinate people, processes, and technology, and (3) business put stakeholders first, supporting the letter and spirit of laws and regulation (Verschoor, 2004c).

High profile business scandals, economic slow-down causing many business failures, and world events have created an increased awareness of the importance of a risks-based approach to corporate governance¹⁷ and have emphasized the danger of not paying attention to risks and uncertainties (Sayther-Cunningham, 2004). The risks-based approach provides a conceptual framework that attempts to capture the benefits of both the rules-based and principles-based approaches. Understanding and managing risk is key to the survival and success for businesses that seek to grow and compete in an increasing global business environment. At a fundamental level, risk is understood to be directly related to human action or behavior (ethics) in the decision-making processes, which are subject to uncertainty. The risks-based approach is designed: (1) to support value creation with good corporate governance by helping companies to deal effectively with potential future events that create uncertainty, (2) to respond in a manner that reduces the likelihood of downside outcomes and increases the upside, and (3) to seize opportunities (Sayther-Cunningham, 2004). The risks-based approach, then, is an attempt to identify, measure, monitor and manage uncertainty. Head (2005) argues that good risk management requires good ethics (and vice-versa). Risk management is a process for making and carrying out decisions designed to minimize the adverse effects of accidental or business losses on an organization by reducing the number or size of these losses or by cost effectively financing recovery from any such losses. Ethics gives guidelines for appropriate actions (respect for others' rights and privileges, safeguard of others from embarrassment or other harm, and empowerment of others with freedom to act independently). Risk-management is based on these ethical actions. The link between risk management and culture can be made from a positive perspective: for an organization to manage its risks well, its employees must practice good ethics;

for an organization to act ethically, employees must manage risk well. Conversely, an organization that permits or encourages unethical actions is not practicing good risk management; an organization that permits or encourages employees to manage its risks poorly is acting unethically.

The challenge for the risks-based approach is to strike the optimal balance between the rules-based and principles-based approaches. Saner (2004) argues that this is an art in the practice of good management and requires: (1) the acceptance of a pluralism of defensible perspectives, (2) the understanding and evaluation of the relative merits of the two different approaches, (3) indicators to track the extent to which the various merits are actually achieved, and (4) building and adopting the empirical evidence the indicators provide into the ODNA (e.g., code of conduct). Saner (2004) points out that the optimal balance between the principles-based and rules-based approach involves balancing the following strengths for each approach: (1) flexibility vs. consistency, (2) capability of informing decisions on unexpected issues vs. standardization of decision-making, (3) dialogue approach vs. analytical approach, (4) fostering teamwork vs. individuality (precision), (5) developing a dynamic workplace culture vs. building a "safe" predictable workplace, (6) providing the actual values held in an organization vs. an organizational environment that can be taken fully into account, (7) "owned" by all vs. implementation from "top-down," (8) brevity vs. details, (9) maintaining elbow-room for our judgments (law of the unenforceable) vs. enforceability, (9) qualitative, subjective end of the spectrum vs. quantitative, objective end of the spectrum, (10) outcomes achieved through judgment vs. outcomes achieved through enforcement, and (11) outcomes achieved through empowerment, thinking and cooperation vs. outcomes achieved by standards matched to the environmental requirements and corruption actively prevented through audit and enforcement.

A risks-based approach entitled, "Enterprise Risk Management (ERM): An Integrated Framework," was developed and released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on September 29, 2004. The ERM provides companies with a roadmap for identifying risks, avoiding pitfalls as well as taking advantage of opportunities to grow shareholder value

(Sayther-Cunningham, 2004). The ERM provides key principles and concepts of a comprehensive risk management framework in determining whether risk management is effective and if not, what is needed to make it so. It comprises eight components: (1) internal environment (sets the foundation for how risk and control are viewed and addressed), (2) objective setting (aligns high level goals with the organization's mission/vision), (3) event identification (identifies what sources can influence strategy), (4) risk assessment (analyzes the likelihood that an event will occur and the potential impact of the event on the organization), (5) control activities (ensures that policies and procedures for risk responses are carried out), (6) information and communication (communicates accurate information on a timely basis to the right people), and (7) monitoring (ensures all components continue to function at all levels). Holst (2005) demonstrates the steps that can help organizations stay focused on the immediate requirements of the Sarbanes-Oxley Act while positioning themselves for an integrated ERM approach to compliance that is aligned with the elements of an effective compliance program as defined by the US Sentencing Commission.

The specific policies and areas of risk are industry-specific and will therefore need to be customized. Nemerson (2005) points out that the mitigating effect of a risks-based compliance program is contingent upon prompt reporting to the authorities and should include factors such as: (1) the size of the organization (the larger the organization, the more formal and detailed its program should be), (2) the type of business (the organization should assess the risks of misconduct activity based on its industry and the type of business in which it engages, including its access to financial, sensitive or valuable products information), (3) prior history (if an organization has had previous instances of criminal activity, it should take particular care in the implementation and monitoring of its program), and (4) industry practices (compliance programs should be consistent with industry standards and best practice). In a risks-based compliance approach, there may be a concern that some organizations would monitor only those areas that are easiest to review rather than concentrating on those areas representing significant risk. Ruvigny et al. (2000) note that to be more effective a firm should undertake risks-based compliance by

monitoring target activities that pose the greatest potential risk to its stakeholders.

The risks-based approach to corporate governance is greatly facilitated by trust-based principles. Kelley (2004) discusses two trust-based organizing and directing principles for corporate moral leadership to transform both public and private institutions in such a way that all persons are placed in positions so that they are able to share in the benefits of the newly formed global economy. The first is the *principle of solidarity* which disposes persons to identify with others since all persons share a common humanity. Solidarity therefore demands dialogue – mutual listening and speaking – and directly influences the way we understand what justice means in the socio-economic realm. The principle of solidarity recognizes the dynamic interdependence among people and firms and promotes the common good, duties, cooperation and equality. The Sentencing Guidelines gives an example of the principle of solidarity in suggesting that larger companies should encourage smaller ones to implement effective compliance and ethics programs. The second principle is *subsidiarity* that is the principle of self-help, including self-regulation. The principle of subsidiarity or self-help can be simply stated as what can be done by the smaller body should not be done by the larger one. In other words, governance at a higher level should not interfere in the internal life of a lower organizational level unless the latter is unable to meet the challenge. Undue interference deprives the lower level of its functions, and the higher level should support it in the case of need and help to coordinate its activities. The principle of subsidiarity stresses rights, privacy, and freedom of the employee or individual person. A culture of subsidiarity enables, facilitates, interprets, creates meaning, and develops through trust (West-Burnham, 1997). With the delegation of any activity, an organization's management requires a higher degree of oversight as it takes on increased risks, which increases in the case of overseas delegation, language and cultural differences (Ruvigny et al., 2000).

Both principles of solidarity and subsidiarity are intrinsically interrelated and the primacy of the common good demands that both principles be balanced and kept inseparable (Arjoon, 2005a). An example of a company living its ethical ODNA in a subsidiarity culture is the case of Johnson & Johnson

(J&J). When the Tylenol scare hit in the 1980s and seven Chicago residents died after ingesting cyanide-laced extra strength Tylenol capsules, J&J managers knew what they had to do – even without consulting with the then CEO, James Burke, who was on a plane when the news broke out. By the time Burke arrived, top management had already called for the removal from shelves all Tylenol products and for the production of all Tylenol items to be halted (Wee, 2002). Although the poisonings were localized and specific to one product, the company recalled all Tylenol products nationwide. The decision and response were immediate and reflected a strong ODNA that focused on its consumers. Although the initial loss was substantial (the recall in 1982 cost about \$150 m), J&J gained widespread praise for its courageous decision, which resulted in consumers' trust and confidence. This allowed the company to regain its previous market share for Tylenol within one year. The balance between the company's rules-based and principles-based mechanism resulted in a shared set of values that were deeply entrenched in the ODNA, which guided its prompt, effective and ethically sound decision.

In developing a cross-disciplinary view of corporate governance on restructuring corporations to create and nurture ethical thinking and behavior, Fort (2001) also applies both principles of solidarity and subsidiarity. He explains that solidarity is manifested through comparison and empathy through a shared commitment to a common good, while

subsidiarity is manifested through decentralization so that decisions are made as close to the problem as possible (given that ethics codes alone cannot adequately govern moral behavior). In linking the two principles, Fort (2001) notes that subsidiarity supports the notion of decentralizing decision-making, which in small groups develops bonds and affections that inspire employees to practice solidarity. Mayer (2004) gives a well-balanced critical review of Fort's work. A trust-based approach can also be characterized by building covenantal relationships (relational contracts between employees and their organizations). Caldwell and Karri (2005) explain why the organizational governance theories of agency and stakeholder are fundamentally inadequate to build trust. The authors advance a conceptual framework based on stewardship theory and characterized by covenantal relationships (that is, social and economical relationships among various stakeholders), and argue that design of governance mechanisms using a covenantal approach is more effective in building trust both at the organizational and interpersonal levels. Figure 2 shows how the various concepts, including trust-based principles, can be incorporated into the conceptual framework.

Conclusion

Driscoll and Hoffman (2000) revisit the compliance versus ethics debate and suggest techniques

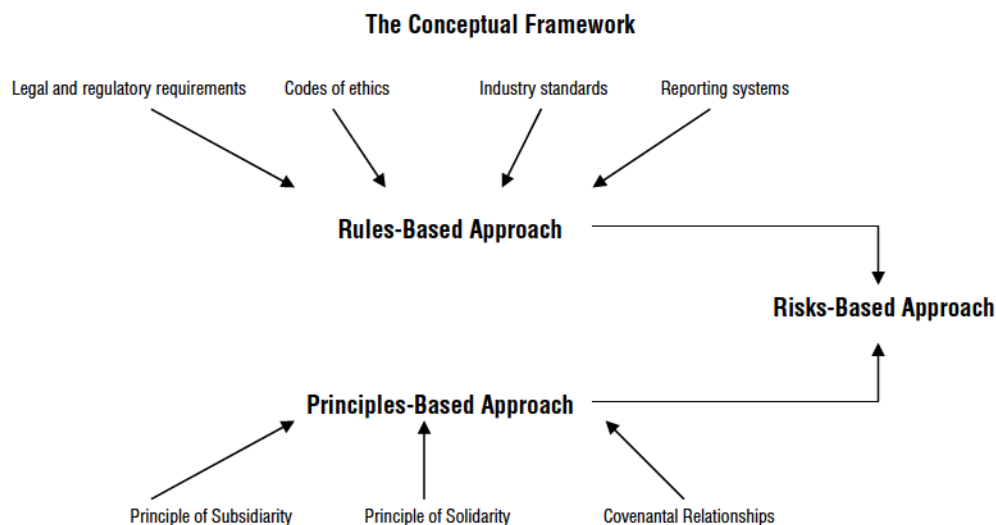


Figure 2. The Conceptual Framework

describing how and why managers should concentrate on matters of core values in order to improve their companies' ODNA. An ethical ODNA can make it clear that a company will not tolerate violations of neither the letter nor the spirit of the rules and regulations. It is through identifying and assessing rules-based and principles-based related risks that a company can improve its ethical ODNA. This paper illustrates the reconfiguration of an ODNA through an effective corporate governance (one that optimally captures and integrates the best aspects of rules-based and principles-based approaches) that can lead to improved performance. Trust-based principles such as solidarity, subsidiarity and covenantal relationships can help in addressing risk factors. With regard to future research, more empirical studies are required to examine the link between an ODNA and various measures of performance.

Notes

¹ United States Sentencing Commission, Amendments to the Sentencing Guidelines (May 10, 2004), available at <http://www.ussc.gov/2004guid/RFMay04.pdf>. Regulations issued in December 2004 directing Federal Government and quasi-governmental agencies to follow Sarbanes-Oxley reforms are found in a revised version of OMB Circular A-123 (Verschoor, 2005). This rule states that organizational culture should be "defined by management's leadership in setting values of integrity and ethical behavior."

² Section 301 requires the audit committees of public companies to establish "... procedures for the receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters, as well as the confidential and anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters." Section 406 requires public companies to institute a code of ethics for senior financial officers to promote "honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships ... full, fair, accurate, timely and understandable disclosure ... and compliance with applicable governmental rules and regulations. Section 806 requires "whistleblower protection for employees of publicly traded companies ... No company ..., or any officer, employee, contractor, subcontractor, or agent of such company may discharge,

demote, suspend, threaten, harass, or in any other manner discriminate against an employee in the terms and conditions of employment because of any lawful act done by the employee to provide information, cause information to be provided, or otherwise assist in any investigation regarding any conduct which the employee reasonably believes constitutes a violation ... of any rule or regulation of the SEC, or any provision of Federal Law relating to fraud against shareholder."

³ According to Andrew Chambers, General Editor of the *International Journal of Auditing*, there is no black and white in terms of which type of governance drives a nation's corporate operations. He explains the gray area as follows: "All regimes of governance and accounting are somewhat along a continuum between the two hypothetical extremes of being entirely principles-based or entirely rules-based. When we say that one regime is 'principles-based,' we just mean it is nearer the principles end of that continuum, but not that it has not rules. And vice versa." As the global economy continues to unify, the two approaches are beginning to come together in a convergence of principles-based rules. The focus should, however, not be on the form of governance but on its quality for which legal tests would be difficult to devise (Jackson, 2004).

⁴ This is akin to the "law vs. ethics" or "legality vs. morality" argument. In the first place, especially in today's environment, rules and regulations are necessary for orderly and fair conduct of business and society. However, rules and regulations remain inherently insufficient to encourage appropriate behavior. It should be noted that ethical failures were the key to most of the major business scandals. Schwartz et al. (2005) point out that experience has demonstrated that potential loopholes will always exist in the legal framework for corporate governance providing one with the opportunity to merely comply with the letter as opposed to the spirit of the law. Therefore, principles-based approaches provide sufficient condition to have an effective corporate governance program in order to attempt to instill compliance and ethical behavior. The use of principles-based approaches require less reliance on rules since values would also be exemplified by the collective tone at the top.

⁵ A practical application of a principled-driven standard is given by Andrew Bailey Jr., deputy chief accountant at the US Securities and Exchange Commission (SEC). He explained that the SEC staff studied principles-based accounting, as required by the Sarbanes-Oxley Act and reported that, "Instead of focusing on developing a specific definition, the organization evaluated whether the current accounting guidance is provided in the United States in the best way." This

system of reporting demonstrates the attributes of an effective or optimal governance system which the SEC calls “objectives-oriented and contains fewer brightline tests, less checklist-style detail, better-defined scopes, and clearer descriptions of objectives.” Flemming Rudd, a professor of auditing at the University of Zurich, who also insists that principles must overrule rules, says, “when the rules and the exceptions to them become too many and regulators are trying to cover too many circumstances, you can drown the principles in the sea of rules (Jackson, 2004).”

⁶ The full text of the speech is available at <http://www.sec.gov/news/speech/sph032403whd.htm>

⁷ The word “effective” is preferred to the word “strong” since strong cultures may not necessarily reflect “good” cultures. A company can have a strong ODNA but can be ethically inferior based on the values represented. An alternative argument might suggest that strong corporate cultures, infused as they are with embedded values (perhaps founder values, in fact) may also lead to strategic myopia and structural inertia.

⁸ An integral component of all compliance and ethics programs is a company’s code of conduct coupled with its commitment to promote an ethical ODNA. Seglin (2002) reports that a committee was formed to write a code of ethics after it became known that Suzy Wetlaufer, the former editor-in-chief of the Harvard Business Review, had formed a personal relationship with Jack Welch, the former chief executive of General Electric, while interviewing him for a feature article in the magazine. After the disclosure of the problem at the Review, four editors (two of whom resigned) asked for the removal of Ms. Wellaufer who was not dismissed for violating the ODNA. It is important for companies to not use a code to brush aside past events and more importantly, that it acts on what it says it values are. In this case, by keeping Ms. Wetlaufer on staff, Harvard Business School Publishing may be sending the message that either she did not violate the ODNA of the norms of the community and the trust of her colleagues or that she did and management did not have the backbone to take action. Seglin (2002) concludes that if weak management is the case, then a new code of ethics, no matter what you call it, will ring hollow.

⁹ Deloitte and Touche (2003) suggest the following questions as the first step to cultural assessment: (1) Do rank-and-file employees understand the tone set by senior management? (2) Do you know, without a doubt, that your organization’s culture encourages ethical behavior at all levels? (3) Can employees throughout your organization describe the company’s code of ethics? (4) Do employees in all areas of your organization ask questions and express concerns? (5) Do your employees

believe that the mechanisms are in place to allow them to voice opinions without fear of retribution?

¹⁰ This does not necessarily mean that the investment strategy based on governance ratings was “not a profitable one” – only that there is no correlation.

¹¹ This of course depends largely on how performance is measured which is a major problem in comparing findings from studies that attempt to link financial and social performance. Inconsistent results are a factor of inconsistent measures.

¹² Business Roundtable is an association of chief executives of leading corporations with a combined workforce of more than 10 million US employees and \$3.7 trillion in annual sales. Its CEO members are committed to supporting public policies that foster vigorous economic growth for a dynamic global economy and a well-trained and productive workforce that are essential for the country’s future competitiveness.

¹³ It is important to note that casuistry is a case approach that allows practitioners to bring moral issues close to the practical realities of their activities. It is an approach that is congenial to the fields of bioethics, medicine, journalism, politics, the media and business in which case analyses are frequently used. Therefore, as a method for ethical analysis, despite its drawbacks, it is being rediscovered in contemporary practical ethics (Werhane and Freeman, 1998).

¹⁴ To address abuses revealed by recent corporate fraud scandals, such as those related to Enron, WorldCom, HealthSouth, and Adelphia, US President George Bush created the Corporate Fraud Task Force in July 2002.

¹⁵ Smaller companies must demonstrate the same degree of commitment to ethical conduct and legal compliance as larger companies, but their programs may be less formal and operate within fewer resources. For example, instead of hiring compliance officers, smaller companies may add compliance duties to the job description of existing personnel, may use informal staff meetings for training, and may monitor their compliance programs through “walk-arounds” or continuous oversight, and may be modeled on well-regarded programs of similarly situated companies rather than created solely for the smaller company (Richman, 2005).

¹⁶ A simple illustration between principles and rules is demonstrated by the Cadbury Committee who said the chairman and chief executive should not be the same person (a principle), but if it were a rule, boards could simply give two members different titles. Some anecdotes on principles versus rules are also provided in Jackson (2004). Norman Marks, project manager for Maxtor Corporation, a California-based company that produces digital storage devices, emphasizes that there are pros and cons to both forms of governance. “I’m

reminded of a conversation I overheard where an external auditor of a company made a sizeable and material adjustment at the last minute to the firm's financial results because the rules required it," he said. When challenged as to whether the report was true and fair, the auditor said, "No, but the rules require me to do it that way." The idea that financial statements must be true and fair is principles-based, while ensuring they are in accordance with detailed instructions is rules-based. Rules, therefore, can force a response regardless of whether it is "true or fair." Another anecdote of principles versus rules is provided by David Brown, Principal for governance and board issues at the Conference Board of Canada. He notes that at the McDonald's fast food restaurant chain, "they don't want people to use flexibility in how they make a hamburger. You make a better hamburger, but you won't be working for McDonald's very long if you do. The importance of consistency is greater than that of flexibility." N.G. Shankar, Head of Corporate Audit at the Aditya Birla Group – a business conglomerate in India, holds the view that a principles-based approach provides more of a behavioral framework that allows corporations to better understand the operational rights and wrongs while the rules-based alternative may simply follow what is stated than actually understanding the overall context or principles involved (Jackson, 2004).

¹⁷ In an address to the Institute of Public Policy in London, UK Prime Minister, Tony Blair, attacked the regulatory burden imposed on US business in the wake of the Enron and WorldCom scandals, warning that over-zealous attempts to eliminate business risk undermined corporate competitiveness. The Sarbanes-Oxley legislation had loaded "substantial new costs" onto US business that were disproportionate to the problems it was trying to redress. "There is a delicious irony in this which illustrates the unintended consequences of regulation. Sarbanes-Oxley has provided a bonanza for accountants and auditors – the very professions thought to be at fault in the original scandal. We are in danger of having a wholly disproportionate attitude to the risks we should expect to run as a normal part of life. This attitude puts pressure on local government and public services in both the UK and continental Europe. Something is seriously awry when teachers feel unable to take children on school trips, for fear of being sued. An over-cautious attitude has led some local authorities to stop parents from taking children swimming unless they have one adult for each child under four." In the same report, Gordon Brown, Chancellor, publicly expressed his solidarity with business in its struggle against unnecessary red tape and pledged to launch a drive against

over-regulation. He urged businesses to identify "out-moded and unnecessary" regulations and signaled a move towards a less intrusive "risks-based" inspection regime which concentrates inspections and reporting on those firms most likely to breach the law (Blitz, 2005).

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Ethical Decision-Making: A Case for the Triple Font Theory

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ABSTRACT. This paper discusses the philosophical argument and the application of the Triple Font Theory (TFT) for moral evaluation of human acts and attempts to integrate the conceptual components of major moral theories into a systematic internally consistent decision-making model that is theoretically driven. The paper incorporates concepts such as formal and material cooperation and the Principle of Double Effect (PDE) into the theoretical framework. It also advances the thesis that virtue theory ought to be included in any adequate justification of morality and the need to integrate or coordinate notions of virtue into various act-oriented or principles-based ethics. The TFT offers a comprehensive and practical approach to ethical decision-making and is a useful alternative embedded in traditional wisdom. This paper provides a more general framework of the TFT than traditionally presented. Practical judgment is shown to play a constitutive role in providing a guide for right action and is the “glue” that integrates the various components of the TFT.

KEY WORDS: Triple Font Theory, virtue ethics, ethical decision-making, formal and material cooperation, Principle of Double Effect, ethical theories, practical judgment

Ethical decision-making models

There is no dispute that all moral theories contain some truth about the moral life. Typically, the literature is filled with proponents of one particular

moral theory, which is often pitted against other theories. On the other hand, some have advocated that it is more plausible to get a better insight into moral issues and ethical conduct by using or combining several theories. One does not have to accept a particular ethical theory in its entirety to understand, for example, the importance of duty and intention, as well as circumstances and consequences for moral evaluation. It is clear that different moral theories help us to identify the morally relevant aspect of human actions, but they do not give a complete and comprehensive account of what constitutes a moral act. The issue, therefore, is not whether a particular moral theory contains morally relevant truths, but whether there exists a theory (or the possibility of developing a theory) that attempts to subsume the truths of other theories. In other words, is there a possibility of a master theory that can give a substantial or complete account of moral actions? Some authors have attempted to develop such a theory or ethical decision-making model that attempts to take into account the major moral theories and approaches. For instance, Carroll and Buchholtz (2000) suggest the use of an ethics screen that combines a conventional approach (personal, organizational, societal, international standards and norms), a principles approach (ethical principles of justice, rights, utilitarianism, and the golden rule), and an ethical tests approach (ethical tests of common sense, one’s best self, public disclosure, ventilation, purified idea, and gag test) in order to determine whether a particular course of action is morally acceptable. The difficulty is that it is left to the individual to determine what mix of guidelines ought to be used as the ethics screen.

Post et al. (2002, p. 138) use an analytical framework that compares the result of three questions based on utility (do benefits exceed cost?),

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rights (are human rights respected?), and justice (are benefits and costs fairly distributed?). The decision-making rule suggested is: (1) if the answer to all three questions is “yes”, then the action is morally ethical, (2) if the answer to all three questions is “no”, then the action is probably unethical, and (3) if the answers are “mixed”, then priorities should be assigned to one of utility, rights, or justice. This analytical framework therefore becomes ad hoc and subjective. Velasquez (2002) also advocates the integration of utility, rights, justice, and caring in making moral judgments. MacLagan (2003), as well, attempts a synthesis by utilizing a checklist of questions derived from general moral theories to develop a framework for case analysis. As part of this framework, the evaluation of issues and the resolution of dilemmas are examined under different moral theories supported by the use of moral imagination.

Buchholtz and Rosenthal (1998, p. 43) argue that without some comprehensive moral theory, several problems arise: (1) how are we to decide which theory to apply in a given situation? (2) what guidelines are we to use in applying these different theories and approaches? (3) what criteria determine which theory is best for a given problem? and (4) what do we do if the application of different theories results in totally different courses of action? Rather than synthesizing existing theoretical alternatives, or providing a balance of rules and principles, Buchholtz and Rosenthal (1998) offer a radical reconstruction of one’s understanding of what it is to think morally by examining the self as inherently social, community dynamics, moral reasoning, and values. Crockett (2005) notes that social and moral issues in business have drawn attention to a gap between theory and practice and have fuelled the search for a reconciling perspective, and that the need for an appropriate moral theory remains a critical initiative, but a daunting one. Whetstone (2001) points out that the reality of complex issues suggests a practical user-friendly decision model combining act-oriented approaches and virtue ethics, and notes that there is a positive trend in this direction. Examples of this trend are: Hosmer’s (1994) multiple analysis which asks decision-makers to consider ethical problems from various principles including virtue, Cavanaugh et al.’s (1995) utility-rights and duties-justice-caring model, and De George’s (1999) steps of a general moral analysis.

While Whetstone (2001) focuses on the practical application of ethical perspectives by business managers and leaders seeking to promote moral development and moral reasoning by complimenting a virtue ethics perspective to deontological and teleological systems of moral reasoning, our paper grounds a virtue ethics perspective into a philosophical framework of the Triple Font Theory (TFT) as enunciated by Thomas Aquinas (1948, pp. 1–11, 18). Typically, concepts of a Thomistic natural law ethics (e.g., virtue, principle of double effect, formal and material cooperation, rights and duties, and practical judgment) are presented as disparate elements. This paper seeks to integrate these concepts under the TFT for moral evaluation of human acts; as well, it attempts to integrate the conceptual components of other major moral theories into a systematic internally consistent decision-making model that has a theoretical basis. This paper, therefore, provides a more general framework of the TFT than traditionally presented. Practical reason or judgment is shown to play a constitutive role in providing a guide for right action to be performed here and now. This paper also advances Robert Louden’s thesis that virtue theory ought to be included in any adequate justification of morality and proposes the need to integrate or coordinate notions of virtue into various act-oriented or principles-based ethics (Louden, 1984).

The Triple Font Theory

There is no mention of the TFT in any of the leading textbooks in Business Ethics or Business and Society (see for example, Boatright, 2003; Buchholtz and Rosenthal, 1998; Carroll and Buchholtz, 2000; Donaldson and Werhane, 1996; Post et al., 2002; Velasquez, 2002; Weiss, 2003). The TFT, identifies three sources or determinants or constituents of morality: (1) the moral object or end of the action, (2) the subjective or personal intention of the agent, and (3) the circumstances including consequences. Barnsley (1972, p. 50) acknowledges that a Western conception of morality requires consideration of all three components: the extent of a person’s knowledge of the situation and the rightness and wrongness of the act itself (*moral object*), the motives of the agent (*intention*), and the conditions

under which the agent acts (*circumstances*). Crockett (2005) also identifies and confirms these three components in evaluating the morality of human acts. A Newsweek article (Underwood, 1997) which discusses whether the cloning of human beings can be ethically justified, highlights all three elements: "Some ethicists regard the cloning of humans as inherently evil, a morally unjustifiable intrusion into human life (*moral object*). Others measure the morality of any act by the intentions behind it (*intention*); still others are concerned primarily with the consequences (*circumstances/consequences*)." Although all three elements do not have the same importance, they all need to be considered as three distinct components when discerning whether a particular human act is morally good or evil, and all three parts must be good for any human act to be morally good. In other words, a morally good object must be chosen, the motive that prompts the action must be good, and the attendant circumstances must also be good. If any single element among the determinants is lacking in goodness, the action is morally illicit. From an analytical perspective, it is legitimate to split elements to distinguish in order to unite. The roles played by the moral object and subjective intention are primary moral elements or determinants of morality, while the circumstances and consequences are the different conditions surrounding the act or accidental determinants.

The TFT provides a legitimate basis for combining insights of the interplay of the morally relevant features of different moral theories into a consistent integrated theory for the moral evaluation of human acts. Some of the major theories emphasize one or two of these elements. For example, contractarianism and legalism¹ concentrate on only the first element; deontological ethics focuses on the second element (duty for duty's sake); utilitarianism, consequentialism, and proportionalism come under the third element; situation ethics says the circumstances (or the circumstance plus intention) determine the moral character of an act. Each of the constituent elements of the TFT is discussed below.

The moral object

The principal criterion of moral evaluation is the moral object, which is the reality toward which the

action tends. The object designates a specific reality, which shapes the moral life and provides an identifiable description of a moral situation. Some philosophers distinguish between the material object and the formal object (see for example, Cessario, 2001). The material object is associated with the external action, while the formal object specifies an operation and its end (the so-called end of the object). Consider the case of the material object of killing. In order to adequately determine the morality of this action of killing, one needs to discern the end of the action or formal object. For example, the deliberate killing (material object) of an innocent life constitutes murder (formal object). Rights and duties are the material objects for the formal object of justice. The same material object can also have different formal objects. In the case of taking money from a bank account, it is legitimate if you are the owner; it constitutes theft if it belongs to another person (without his or her knowledge or approval).

Issues pertaining to rights and responsibilities are also to be considered under the moral object since they directly affect the nature of the act. A right is something one can claim due in justice; it is the moral power to do, to hold, or to exact something. Responsibility or duty is defined as the moral obligation to do or to omit something. A right is in fact the reverse side of a duty, and vice versa (e.g., since I have rights, you have the duty to allow me whatever my rights entitle me to). In theory,² there is no real conflict between rights and rights, rights and duties, and duties and duties. In such cases, the stronger right or duty prevails; the weaker right or duty ceases to be a right or duty. Conflict situations may arise either when one person claims the right to do a certain thing and another claims the right to prevent him or her, or when two persons claim the same thing. Some general norms or guidelines in resolving conflicts of rights and duties include: a higher law prevails over a lower, a clearer title prevails over a less clear, the certain before a doubtful, paying a debt before giving a gift, a more important matter will prevail over a lesser one, a more necessary and urgent good to one less necessary and urgent, the rights of higher-ranking persons supercede those of lower ones, the right of someone having a closer relationship prevails, the more common good prevails over the individual good, and the wider social order

prevails (Fagothey, 1959; Higgins, 1992). In practice, determining which right or duty is the stronger can become exceedingly intricate and beyond the competence of the ordinary person. Although the norms cited above can help, there are many cases in which the answers are not clear-cut and practical judgment is necessary.

The moral object is therefore the human act itself and whatever it necessarily involves. Some questions that one can consider in evaluating the moral object are: Does it violate any human rights or any just laws? Does it fulfil contractual duties? Is it in accordance with distributive justice? Is it a disloyal action? Does it contribute to community or promote other ethical values? Are there any better alternatives? Has the ethical issue or problem been properly defined (facts, conflicts of rights, duties, and values)? Who are the stakeholders that may be affected? Is there a possibility for scandal? What is the symbolic potential of the action and perceptions of others? If human acts do not have definite moral character in their moral objects, that is, if the object does not manifest the good or evil of the act, then we look to the other primary element (the subjective or personal intention). The determination of the moral object is constituted through the relationship between the human act itself and practical judgment.

Subjective or personal intention

As we have seen, the moral object is the matter of the human act; the intention or end refers to the subject or person and is the motive for which a person commits a good or evil act. Forming an intention, in freely choosing, is not a matter of having an internal feeling, impression or following advice, but it is a matter of setting oneself to do something. The intention of the act has the significance it has in the identification and evaluation of the act, precisely because choice has the creative self-constitutive importance it has. French (1990) also highlights the importance and role of intention in moral evaluation.

Intention is an act of the will, so that human acts performed externally under the command of the will take their morality first and foremost from the will itself. For example, if I intend to steal, but for whatever reason, I am unable to implement my plan,

I have committed from a moral standpoint, an act of theft. The external act adds something to the internal act of the will by perfecting the act. A person who intends to do a good deed, but fails to carry out the intention, has less good in his or her conduct than another who has the same good intention and fulfils it by performing the external good deed. The goodness or malice of human acts is therefore found in the internal act of the will, even if it is not exteriorized. However, the external act can manifest the intensity of the internal act and thereby increase its morality for good and evil.

In evaluating the subjective intention, the concept of cooperation in injustice or evil is also considered. Mele (1997, p. 70) identifies three ways of direct cooperation in another person's actions: (1) immediate participation (e.g., participating directly in another's action or giving to the necessary approval), (2) collaboration (e.g., carrying out some mandatory action or contributing information that promotes the action), and (3) omission (e.g., not letting others know, correcting or persuading others when it can be done, and there exists reasonable possibilities for the action to be performed efficaciously, not to impede an illicit action when we have the ability of doing so, not to denounce harmful conduct or immoral behavior, to conceal an immoral action if such concealment effectively influences its accomplishment, or to protect those who act irresponsibly so that they can continue behaving unethically). Cooperation can take two forms: (1) *formal* and (2) *material*. Formal cooperation occurs when one not only helps another person to commit an immoral act, but also joins in the other person's immoral intention. It makes a person fully responsible for whatever is done in the course of an action. Such cooperation is always wrong and cannot be justified under any circumstances. Material cooperation, on the other hand, occurs when one does not intend to take part in another person's immoral act, but knowingly takes part in the immoral act by some act that is not itself immoral.

Some factors to consider with respect to material cooperation include: (1) the amount of evil that others will be enabled to do by my cooperation, (2) the amount of evil that will happen to one if one refuses to cooperate, (3) the closeness or proximity with which my cooperative act is connected with the evil act of the principal agent, and (4) greater

reason is required for indispensable cooperation. A general standard by which to evaluate whether cooperation as an action is formal or material is given by three conditions: (1) if the agent does not will the whole operation, (2) if the agent's part in the operation is not intrinsically wrong, and (3) if there is proportionate need for cooperation. If these conditions are present, the cooperation may be judged to be material, and so the action of the agent is not immoral. If any of them is lacking, then the cooperation is formal and the agent is morally responsible. For the third condition, Mele (1997) suggest the consideration of the following questions: What are the objective reasons for cooperation? Is there an obligation or possibility of obstructing the other person's action? What is the moral gravity of the other person's action? What is the proximate cause for the cooperation? Material cooperation if possible ought to be avoided, otherwise prudence suggests that some precaution should be kept in mind: avoid the possibility of scandal; avoid false rationalization or justification of other's actions; and consider carefully whether cooperation is justified (Mele, 1997).

To demonstrate whether one is cooperating materially or formally, consider the case of a manager of a food processing plant, part of whose sales are to developing countries. The manager knows that a certain product, which the company exports, is potentially life threatening. Specifically, the manager knows that if a certain shipment is approved, a number of pregnant women are going to suffer very dire consequences during their pregnancy, perhaps even death of mother and child. The manager also knows that if this shipment is not approved, he or she will be fired and someone else with a less delicate conscience would soon assume his or her position and would indeed approve the shipment. In this case, if the manager approves the shipment, he or she formally cooperates in the unjust act (supplying an unsafe or life-threatening product to the customer), and is morally responsible for this act. On the other hand, if she refuses, then of course, she does not engage in the act and also avoids material cooperation.

With regards to the relationship between the moral object and the subjective intention, a morally upright intention cannot make a bad action or moral object good (the end does not justify the means), although it can make a good action bad, and a bad

action worse. In other words, if the object of an act is evil as well as possessing an evil end or intention, then the malice of the act increases. Finally, an intrinsically evil act cannot be made good by the end sought. Some questions that one can consider in evaluating the intention are: Is honesty the goal that is sought? Could the moral quality of the intention be improved? Can you take pride in your action? Am I being true to myself? Can I reasonably defend this position?

Circumstances and consequences

Circumstances

Since actions occur within concrete circumstances, it is necessary not only to examine the moral object and personal intention, but also to consider those circumstances, which provide the setting for a particular action. The word circumstance comes from the Latin *circum-stare* which means 'what stands around' and refers to those situations that contribute to the morality of the act. Circumstances of the human act are therefore *accidental* and are conditions which are outside the essence of a human act, but nonetheless affect it. The classical listing to discern the circumstances of a human act is accomplished by a series of seven questions: (1) circumstance of person – the acting subject (who?) (2) circumstance of quality of the act – the thing done (what?) (3) circumstance of place (where?) (4) circumstance of help or influences (by what aid?) (5) circumstance of intention – immediate reasons (why?) (6) circumstance of mode or manner in which the act is done (how?), and (7) circumstance of time – time affects the morality of the act (when?). The most notable of the circumstances are those of intentions (why?) and the quality of the act (what?), as they are more intimately associated with the human act in question. Both these circumstances should not however be confused with the subjective intention and the moral object, respectively, as the circumstances are additional modifications in the personal intention of the agent or the moral object. Circumstances as such, refer to such considerations as performing an action at the right time, in the right place, in the right manner, with the right person, and so on.

Now it sometimes appears that circumstances specify an act in its moral character or essence, in

other words, it may appear to change the moral species of an act. Strictly speaking, circumstances are what are termed *accidentals* of a human act, and as such, accidentals cannot specify an essence. Two types of circumstances can be identified: (1) *aggravating* circumstances which leave the human act unchanged in its character or species, and merely intensify it, that is, make it better or worse, and (2) *specifying* circumstances which change the nature of the act, or more precisely introduce a new element into the act (Smith, 1991: Chapter 7). Aggravating circumstances remain accidental and increase or decrease the moral gravity of the act. Specifying circumstances are more than mere accidentals or circumstances; they amalgamate essentially with the act itself. Such circumstances enter into or specify the moral object. O'Keefe (1987, p. 33) provides some instructive examples that illustrate the proper identification and distinction among the moral object, personal intention and circumstances and consequences.

Analysis of consequences: The principle of double effect

Consequences, as are foreseen, follow naturally from the act, and so are an integrated aspect like the act itself. Consequences, like aggravating circumstances, do not of themselves intrinsically change the moral character of the act, but can change the moral gravity of the act, that is, increase or decrease the goodness or malice of the act. Consequences, normally do not affect the moral character or nature of the act except insofar as they are known and will therefore become part of the nature of the act itself (Wallace, 1977). However, bad consequences, though unintended, are foreseen as following from what is directly intended, and may be reason for forbidding an otherwise moral action. In difficult cases, the Principle of Double Effect (PDE) can be applied. The PDE states that, given the fulfilment of four conditions, an action with at least one good effect and with one or more bad effects may be legitimately performed. The four conditions of the PDE are: (1) the action itself must be morally good or at least morally indifferent, (2) the good effect must not be obtained through or by means of the bad effect, (3) the bad effect must not be intended, but rather only

tolerated, and (4) there must be a sufficiently serious reason to justify allowing the evil effect. With regards to integrating the PDE into the general framework of the TFT, note that the first condition is already considered under the moral object and the third condition is considered under the subjective or personal intention.

The PDE is a doctrine that distinguishes between the consequences of what a person intends and those consequences that are unintended but foreseen, and may be applicable in situations where an action results in at least two effects, one good and one evil. For centuries, ethicists and moral theologians have accepted the validity of the PDE and have applied it in many areas of ethical decision-making, including questions concerning sterilization, prophylactic devices, hunger fasts, military strikes, terminal sedation, and justifying the use of powerful pain-relieving drugs in the care of terminally ill patients (Williams, 2001; Glynn, 1999; Keenan, 1993). Tully (2005) reports that throughout its rather long history, the scope of cases to which the PDE has been applied has grown and that the principle has come to play an important role in applied ethics in several areas including the morality of warfare, medical ethics, as well as bioethics, and may be especially helpful to one confronted by a conflict of duties. He also points out several areas in business in which the PDE can be applied. Masek (2000) also acknowledges that the double effect thinking can be useful in the field of business ethics. Woodward (2001, p. 3) observes that the PDE is a principle of moral theory that lessens the occurrence of moral dilemmas, and so, is preferable to a theory that results in more dilemmas; it is not the only moral principle that, if true, will help to resolve moral dilemmas, nor will it resolve all such dilemmas. For example, Tully (2005) underscores that the PDE presents a set of constraints on agents and their choices, constraints which function as necessary conditions for licit behavior. It is to be fully understood in a natural law framework alongside a set of exceptionless prohibitions that would lead to the conclusion that: (1) it is not permissible to market a product that one knows is intrinsically harmful to a basic human good, and (2) it is not permissible to market a product that promises a serious evil that is disproportionate to the promised benefit. In this regard, the PDE can be misunderstood and applied inappropriately.

The history of the reasoning of the PDE has been shaped in its most important aspects in Thomas Aquinas' (1948, 2-2, q 64, a.7) treatment of killing in self-defense. Kaczor (1998) points out, however, that it is the 19th century French Jesuit, Jean Pierre Gury (1801-1866), who is often considered the originator of the modern notion of the double effect reasoning. Berkman (1997) notes that contemporary moral theological discussion of the PDE usually operates in one of the following four contexts: (1) interpretation of Aquinas, (2) in relation to manualist casuistry, (3) as understood within proportionalist methodology,³ and (4) as defended within the natural law methodology. He also notes that as the practice of moral theology became less connected with its earlier ecclesial and sacramental context, the PDE has fallen into an epistemological crisis.⁴ It is important to understand that the PDE presumes the existence of moral absolutes and is based on the possibilities regarding right actions. Boyle (2001) points out that any normative theory which allows that there are kinds of actions which are good and bad could be consistent with and make use of the PDE, for example, moral rules which direct one to respect basic human goods or values (i.e., a certain priority and ordering among goods that human beings pursue). He also notes that the PDE continues to be misunderstood because the theory of agency that it presupposes is ignored. If this view of human agency is false, then the PDE must be abandoned; but if this theory of agency is true, and if the normative theory that makes use of the PDE can be defended, then the PDE is a long way toward vindication. Woodward's (2001) book that consists of essays in which various philosophers either defend the PDE or criticize it, reveals the continuing interest in the PDE and also how the doctrine can be employed in particular situations, including how it can be misused in certain ways.

Boyle (2001) argues that at least some of the propositions concerning intention, action, and moral responsibility must be true if some version of the PDE is to be defensible and morally relevant. He states the four conditions as: (1) the agent's end must be morally acceptable, (2) the cause must be good or at least indifferent, (3) the good effect must be immediate, and (4) there must be grave reason for positing the cause. The cause that brings about both effects can be morally evaluated independently of

either of its effects. The sense of immediate in the third condition is that the evil effect may not be a means to the good effect. The good effect should at least be equally immediate as the evil effect in the sense that it is not obtained by means of the evil effect, otherwise the evil effect may be really intended (Kaczor, 1998).

Quill et al. (1997) have raised two major objections to the value of the PDE as a guide to clinical practice. First, analysis of intention used in the PDE is problematic, difficult to validate externally, and inconsistent with other analyses of human intention. Specifically, it is difficult to draw a distinction between intended and foreseen consequences. Also, human intention is multilayered, ambiguous, subjective, and often contradictory. The rule of double effect does not acknowledge this complexity; instead, intention is judged according to the presence or absence of a clear purpose. The concern is that physicians will be confused trying to read patients' minds and to determine their real intent. One can misinterpret or confuse the distinction between causing death and allowing it to occur (Glynn, 1999).

With respect to the first objection, nothing prevents that there be two effects of one act: one is in the intention, but the other is outside the intention. Moral acts take their species from that which is intended, not from that which is outside the intention (Kaczor, 1998). Anscombe (1982) argues that the objection that the "intention can't be known because it is something private...is in general absurd. It is often, nay usually apparent that someone is doing such-and-such on purpose. It is no objection to this that error in this point is possible". Sulmasy (2000) reinforces the view that the "difficult" notion of intention is indispensable to moral analysis in general.⁵ What has often been unclear in the expositions of the PDE is that it only applies under conditions in which there are no alternatives. Sulmasy (2000) further points out the failure to recognize that the PDE is meant to apply to the "hard cases": (1) doing some good will cause some harm, (2) one has already narrowed one's alternatives to those that do the least harm, and (3) the action is good but there is potential to cause harm. The formulations of the proportionality condition of the PDE have sometimes included lack of reasonable alternatives (e.g., one may not use a possibly deadly drug if a safer one is available).

The second objection fails to distinguish between responsibility (all of the effects one knowingly brings about through intentional actions, whether intended or not) and culpability (those consequences that one actually intends). One's responsibility covers the former of what one freely chooses to bring about but that under certain circumstances such as those specified by the PDE, culpability (that for which one can be blamed) only covers the latter, that is, what one intends (Sulmasy, 2000). Under the PDE, a person is not culpable if he or she has followed its conditions and has not violated any other moral norms. Furthermore, in most moral, social and legal realms, people are held responsible for all reasonable foreseeable consequences of their actions, not just the intended consequences.

Some questions one can consider in examining consequences are: What are the short-term and long-term, positive and negative consequences? Is there an appropriate balance between positive and negative effects? Is the agent's intention confined to the good effect? Have reasonable means or measures been taken to minimize or to avoid the bad effects? Is there a reasonable proportion between the good and the bad effects? Woodward (2001) provides a comprehensive discussion on the PDE. O'Keefe (1987, pp. 55–61) provides several examples that highlight the fulfilment of the different conditions.

Integrating virtue ethics into the TFT framework

Virtue ethics

Virtue theory holds the view that the foundation of morality lies in the development of good character traits: a person is said to be good if he or she has virtues (Arjoon, 2000). Virtues are acquired human qualities or excellences of character that enable a person to achieve the good internal to practices and the achievement of these goods across a variety of practices and over time is instrumental in the individual's search for and movement toward his or her own telos (Moore and Beadle, 2006; Mintz, 1996). According to virtue ethics, therefore, virtues imply that there is a set of qualities that will make people fulfil their functions as people properly and well; in order to enable us to be and act in ways that develop

this potential; virtues are acquired by habituation or repetitive practice. Ledden (1947) also points out that to act virtuously involves doing what one thinks is right, but this may actually turn out to be wrong. Such a case, especially where the decision to act involved painstaking moral deliberation, does not justifiably impute blame or the charge of violation of obligation, in fact, the agent should in such circumstances be praised for acting virtuously, even if wrongly.

Two distinctions in virtue ethics need to be pointed out. The first is to recognize the distinction and inter-dependency between moral virtues (e.g., courage, justice, and discipline) and intellectual virtues (e.g., practical judgment or reason), which are both required in ethical decision-making. Moral virtues are necessary because they control the appetite or motive force of desire by making effective the commands of practical judgment. Fortenbaugh (1964) argues that the functions of the moral virtues are incorporated into practical deliberation because moral virtue supplies the goal and the particular premise from which practical judgment issues command. For example, the moral virtue of courage will make the agent judge (perceive and discern) correctly particular situations and not act out of ignorance.

The second distinction is between virtuous acts in general (i.e., acting merely in accordance to moral standards) and acting from virtue. Simply stated, there is a distinction between doing a just act and doing an act justly. According to virtue ethics, actions gain no moral worth by mere conformity with sound standards of conduct. The right actions performed in the wrong way and from the wrong motives (e.g., from self-interest) are not to live up to the standard of virtue and so have no moral worth (Audi, 1995a, b). Therefore, the mere existence of objective moral standards and acting in conformity with them, do not guarantee moral worth. Audi (1995a, b) concludes that virtues are required to realize these standards and acting from virtue is the main basis of the moral worth of agents. Waide (1988) also notes that those who define virtue as a disposition to act in accord with moral standards or principles are making virtues derivative from principles. Bastons (2006) also addresses the relation between virtues and principles. In particular, a principle (e.g., a principle of expected utility) can

solve the problem of “choosing” among given alternatives, but does not establish which alternative should be taken into account. He suggests a rule that would guarantee a decision to be optimal as “do that which most certainly maximizes our preferences, according to real operative resources, true knowledge and the right will”. Bastons (2006) concludes that this rule cannot be applied without the development of the (four) cardinal virtues – practical judgment, justice, courage, and discipline – which are described as the main moral competencies in decision-making.

One of the main criticisms of virtue ethics is the lack of clear-cut rules since the theory implies a process of cultivating excellence in character that are preconditions that would preempt application and consideration of such rules. Whetstone (2001) summarizes the major criticisms,⁶ benefits and theoretical problems of virtue ethics. The benefits of virtue ethics include: (1) it is personal, (2) it focuses on the motivations of the actor and sources of action, bringing a dynamic to ethical understanding, (3) it is contextual, highlighting the importance of understanding the environment as it affects both actor and acts, and (4) it complements other disciplines addressing human behavior. Theoretical problems include: (1) virtue theory’s concept of eudaimonia is difficult and obscure, (2) it is criticized for its cultural relativism because different people and cultures can consider different character traits as virtues, (3) different virtues sometimes point to conflicting actions, and (4) if business grows due to entrepreneurial initiative of individuals rather than merely through social evolution, then virtue ethics is inadequate on a stand-alone basis.

Some have argued for the need to integrate act-ethics (the morality of specific willed actions, e.g., rules-based ethics of the analysis of right and wrong conduct) and agent-ethics (the quality of the motive, e.g., virtue ethics and the ethics of obligation).⁷ Laird (1946) argues that the contrast between act-ethics and agent-ethics cannot be absolute in all relevant ways since it is a person who acts. Therefore, act-ethics presupposes that the relevant acts are the acts of an agent and that insofar as one treats the discriminable elements in or features as isolable, one is overstepping all reasonable boundaries. Ledden (1947) also argues that the ethical concepts of virtue, obligatoriness and rightness should not be looked

down upon as divergent conceptions of the true nature of ethics, but as supplementary conceptions indicating different parts of the overall discipline. Intuitively, it makes sense to consider principles-based theories (*what is the right thing to do*) with a virtue ethics perspective (*what kind of person I ought to become in order to consistently do the right thing*). Codes of ethics and conduct are in fact an attempt to infuse virtues into principles-based ethics.

Whetstone (2001) also supports the case for the need to add virtue ethics as a complement to deontological theories that focus on obligations and teleological ones that place priority on the consequences of the acts. He argues that given the reality of complex issues, adding a virtue perspective as a complement to act-oriented perspectives can expand the scope and understanding of ethical analyses in order to help business managers solve specific problems in a real time situation and context. A principles-based impersonal ethic complements a virtue-based personal ethics in applying practical judgment in a situation specific context. Whetstone (2001) proposes a complementary approach using a tripartite ethics formulation (balancing character considerations with a deontological focus on obligations to act and a teleological focus on the consequences of acts) as a more fitting guide for applying normative ethics theories to decision-making and moral development. He concludes that this balanced formulation enhances the realization of the benefits identified with the addition of a character perspective and that adding a virtue perspective as a complement to act-oriented perspectives expands the scope and perspectives of ethical analysis and understanding. Crockett (2005) also argues that virtue ethics offers the best of consequentialist and non-consequentialist theories without the insufficiencies of either in that: (1) virtue is just as focused on outcomes as are consequentialist theories, but the way in which that outcome is defined is materially different, as revealed by its intrinsic concern for moral, social, and even historical dimensions, and (2) virtue is just as concerned as non-consequentialist theory with the act itself as it places not only a high value on pure motives, but also uniquely highlights the moral character of the actor in such evaluations.

Virtue ethics in the Aristotelian sense as identified in Whetstone (2001), readily lends itself to integration into the TFT framework: (1) the virtuous

person acts with full knowledge and consent, aware of the pertinent facts and the practical wisdom needed to apply the act so as to fit its appropriate purpose (*moral object*), (2) the motive for choosing the act must not be for personal advantage of other non-deal motives, but simply because it is virtuous (an upright *personal intention*), and (3) the act is contextual, highlighting the importance of understanding the environment as it affects both the agents and their acts which are as a result of a steady state character (*circumstances/consequences*). In other words, a virtuous or morally licit act is one based on practical judgment or prudence, with an upright motive (*intention*), with a steady disposition of character, or simply put, doing the right thing (*moral object*), in the right place, at the right time, with the right person (*circumstances/consequences*). The integration of virtue ethics into the TFT framework illustrates the intimate relationship between virtue-based ethics and various principles-based ethics, in particular how each reinforces the other.

Crockett (2005) summarizes the benefits of integrating a virtue-based ethics perspective into principles-based ethics: (1) its capacity to continually inspire individuals and communities toward a better potential than they will ever achieve (this avoids the passive tendencies of deontological theories which point to performing ordinary duties well while virtue points to performing ordinary duties extraordinarily well or excellently), and (2) the true power of virtue is not in individual virtues or the useful habits it can be used to generate, but it is the purposeful meaning and conceptual alignment it imbues in a given social context. Arjoon (2000) also discusses how virtues relate to principles-based ethics and identifies the four foundational virtues in that all other moral virtues are linked to them: (1) prudence (also known as practical wisdom or sound judgment about right actions and right reasoning), (2) justice (also called fairness or responsibility, describes a situation where one constantly gives others what is their due so that they can fulfil their duties and exercise their rights), (3) fortitude (also known as tough-mindedness or courage is the ability to resist immoral situations or challenges, as well as, to promote what is good in difficult circumstances), and (4) temperance (also called self-mastery or discipline, is the ability to have control over our tendencies or

inclinations to laziness, complacency, reluctance to fulfil our responsibilities, etc).

Practical judgment

Practical wisdom or judgment is the capacity to make wise decisions regarding which virtues are called for in particular circumstances and the best ways to enact those virtues (Fowers, 2003). It presumes that the agent recognizes the need for action, has knowledge about the facts (in particular, a clear-sighted reading of the circumstances) including scientific and technical knowledge relevant to the concrete situation. According to Bricker (1980), practical wisdom results in the act that would turn out best for the agent, whether or not the agent is or ought to be in a position to know which act this is; the agent creates through his or her actions, the best that the circumstances will allow. He further points out that in asserting that a person has led a prudent life, it is an objective claim rather than an evaluative judgment, at least to the extent that the agent's concept of the good is itself objectively determinate; in other words, to be prudent or to possess practical judgment is to effect a reconciliation between oneself and one's world.

Fowers (2003) describes three components of practical wisdom or qualities that characterize the virtuous person: (1) moral perception about what is important, (2) deliberation about how to address the central aspects of the circumstances, and (3) choice of the most appropriate response. These components are complementary and inseparable in understanding practical judgment: it begins with an appreciation of the good which is brought into the present with the perceptions of what is most important in a situation with respect to the good, proceeds through deliberation of which actions will work best to achieve the good (the end in view) of the relevant considerations, and is finalized in the reasoned choice to adopt a course of action. Furthermore, since practical judgment involves consideration of a quality of both the means and the goals to be pursued, it provides a form of rationality that incorporates technical knowledge and guidance in the more challenging aspects of decision-making (Fowers, 2003).

Moral perception identifies the relevant aspects given the circumstances, that is, the significant aspects in relation to one's aims. Understanding the circumstances is largely constituted by the agent's intentions because the actual pursuit of an end is only possible when we constitute a situation as an occasion in which we can act for the sake of that aim (Sherman, 1989). Moral perception helps in identifying the particular virtues that need to be applied in each concrete situation. The second component of practical judgment is deliberation, which is required as how to best resolve a goal in a given situation. In general, the situation or circumstances are multifaceted and the challenge in ethical decision-making is to determine which of the many ethical principles should be employed in a given situation. As a result, it is no surprise that many people err in their judgment about how to act in a particular situation. In fact, practical judgment is developed and perfected through experience of recognizing and correcting mistakes. Golding (1963) highlights that two functions of principles are: (1) to simplify problems of conduct by the putting of principles of actions into broad terms, and (2) to structure one's conduct into a coherent pattern. However, since general principles are never sufficient to provide detailed guidance in a specific situation, and there are no set rules or definite procedures for arriving at this judgment, one must rely on reasoning about what is proper or fitting in order to choose the best course of action in pursuing an aim (Fowers, 2003). Factors such as relevance, appropriateness, and reasonableness, which are central to professional deliberations, help to filter the complexity and nuances of the situation.

After the relevant considerations become clear and the determination of which ethical principles ought to be applied in the concrete situation, one needs to make a reasoned choice about the appropriate actions which would bring about the best course of action that takes into account the considerations. Right reason is directed practical judgment regarding which virtues are called for in acting according to the means of excess and the deficiency. This implies the need to have an active self-reflective capacity through which the agent can assess the degree to which he or she acts for the best reasons (Fowers, 2003). The three components of perception, deliberation and reasoned choice are required

for doing an act justly (as opposed to simply doing a just act). Fortenbaugh (1964) demonstrates that it is reasoned choice that unites the two provinces of deliberation (the province of practical reason which have a conception of the good and a judgment concerning the circumstances before it can perform the syllogistic moves appropriate to it) and moral perception (the province of moral virtue and capacity to control appetite).

Fowers (2003) also points out that the ultimate test of practical judgment is whether the decision-making process brings the most pertinent considerations to bear in such a way that the most relevant concerns carry the most weight. Bricker (1980) argues that if a theory of prudence or practical judgment is to require the agent to take into account the conflicting preferences in deciding which act to perform, then some means of weighing these conflicting preferences must be provided. In order to meaningfully compare the preferences of an agent, it cannot only be accomplished by simply allowing those preferences to rule supreme and which the agent has held for the longest amount of time, but also how strong these preferences are. These two considerations of ordering and strength should determine how much weight is given to particular preferences in the agent's decision as to which act to perform.

Practical judgment and the PDE

In contemporary work, the PDE is mostly understood as a principle of justification and so it is thought of as a handy problem-solving device. Typically, one argues the moral licitness of an action by demonstrating the fulfilment of the PDE's four conditions (see for example, Boyle, 2001). Keenan (1993) criticizes that such an appeal on the basis of justification presupposes that the PDE legitimizes moral activity, and that this presupposition is dangerous at best. He argues that the PDE in fact does not have a justifying basis, but primarily it is considered to have a confirming and heuristic function as demonstrated by the historical development of practical judgment through two methods of moral reflection: (1) taxonomic, and (2) geometric. A summary of the explanation of these two approaches as described by Keenan (1993) follows below.

In the first place, experts (moral theologians and teachers, rabbis, etc.) resolved moral problems and

cases through their experiential, practical wisdom and not through set prescriptive or prohibitive principles. This approach gave: (1) internal certitude or validity based on the compelling nature of the case's resolution that recommended the case as a clear guidepost, and (2) external certitude or validity which was expressed as the view of the recognized experts in judging and recommending the particular case. The particular case now served as a benchmark or standard (paradigm case) in which the congruency of new cases can be compared. In this way, several paradigm cases were developed. If the moral logic in a new case was equally correct or congruent (internal certitude) with a particular paradigm case, and the experts gave it external certitude by listing the new case within their canons, then it meant that the solution applied in the paradigm case could be applied to the new case; otherwise a new paradigm case was to be developed. Although certain ethical maxims⁸ were involved, it was the practical judgment (in this case, the ability to recognize to which set of cases a new case with a new moral problem ought to be compared and measured) of the experts that resolved arguments. Moral taxonomy methodology employs a detailed comparison and contrast of related cases. The challenge in practical judgment is knowing how to construe the case, how to describe, clarify and compare similar acts or cases insofar as circumstances do not pre-label the occasion and to the extent to which the agent's preferences would be satisfied (Bricker, 1980; Sherman, 1989).

Before the PDEs formulation, it was the paradigm cases that were used to confirm the legitimacy of new moral solutions through comparison of moral reasoning to the paradigm case (internal certitude) and acknowledgment from experts (external certitude). In this way, experts developed among others, the PDE by articulating the points of agreement among a variety of related cases that enjoyed internal and external certitude. The four conditions of the PDE itself have no necessary prior internal coherence, but were derived from common and key insights found in the logic of the paradigm cases. The rationale for the articulation of the rules of the PDE arose from the dependency on and shortage of the experts⁹ and so the formulation of the PDE was to guide the judgment of the less skilled and experienced. This resulted in the geometric methodology in which the PDE is invoked to determine whether or not a particular

case and its solution conform to the four stipulated conditions. The PDE therefore is a result of the application of successful taxonomies. For a detailed discussion on taxonomic and geometric methodologies as applied to the PDE, see Keenan (1993) and Jonsen and Toulmin (1988).

Keenan (1993) identifies four paradigm cases: (1) the moral legitimacy of bombing a military target in a civilian population, (2) the moral legitimacy of administering dangerous amounts of painkillers to the terminally ill, (3) the removal of a cancerous uterus, even during a pregnancy, and (4) the ectopic pregnancy. The cases are called paradigm because they provide a suitable model of practical judgment (which gives them their internal certitude or validity) and that practical judgment has been recognized by frequent appeals by the experts (which give them their external certitude or validity). As such, these paradigm cases serve as prudential guideposts for other cases. When compared taxonomically, several points of congruency can be identified in the first three cases: (1) in each case someone is seeking to perform a morally permitted act, (2) the activity prompts possible effects that ought never to be intended, (3) these effects are not aimed at by the agents, and (4) the activity does not in itself include the wrong effects, that is the effects are incidental to the intention of the agent and to the moral object of the act itself. The case of the ectopic pregnancy diverges from the first three cases because the object of the activity cannot exclude as "accidental" the effect of the embryo's removal that is intrinsic to the object of the activity. To confirm that ending an ectopic pregnancy is morally right, Keenan (1993) then looks for congruency with other internally validated cases, in particular the case of self-defense in the situation of an unjust aggressor. Specifically, in life-threatening situations, the fetus is an unjust aggressor¹⁰ and therefore the woman has a right to defend herself. The key consideration is that the embryo has implanted itself where it should not be.

To illustrate how the geometric application of the PDE can be misleading, consider the case posed in a Newsweek article (Hosenball, 2006, p. 6) on the issue of whether or not the President can order a killing on U.S. soil. The article reports that a Justice Department official suggested that in certain circumstances, the President might have the power to order the killing of terrorists. Specifically, one former

official noted that before Flight 93 crashed in Pennsylvania, top administration officials weighed shooting down the aircraft if it got too close to Washington, D.C. In the geometric application, this case can be shown to fulfil the checklist of the four conditions of the PDE. The good effect (saving many lives on the ground) is not obtained through or by means of the bad effect (loss of lives of those who are on board Flight 93); the saving of lives was obtained by the destruction of the aircraft. The deaths of those on the flight are not intended, but only tolerated; as well as, there is sufficiently grave or proportionate reason for allowing the deaths of those on the aircraft. The geometric method of conformity to the four conditions legitimizes and justifies the solution.

Following the line of practical reasoning of the case of the ectopic pregnancy, we can now argue taxonomically the case of the order to shoot down the plane. The key question is whether or not the presence of people on Flight 93 is to be treated as “accidental”. In this case, we are shooting down the plane because the terrorist, is on board and has control of the plane. The moral object of the activity cannot exclude the accidental effect of the civilian (and terrorist) deaths, precisely because they are not an effect. Rather, the deaths of the people on board are intrinsic to the object of the activity. The case can be compared to the paradigm cases of self-defense in the situation of an unjust aggressor (as in the case of the ectopic pregnancies): in the life-threatening situation, the terrorist is a formal unjust aggressor who has put himself where he or she should not be. The shooting down of the plane involves a direct killing. Although the solution was justified geometrically, taxonomically the solution is revealed as misleading. This perspective clarifies how a decision-maker ought to use practical judgment in using formal ethical decision-making procedures. It would be a mistake to simply apply a principle or a rule in a geometric manner that automatically produces the right answer. Fowers (2003) concludes that a reliance on intellectually grasped principles, no matter how well developed, can never substitute for practical wisdom.¹¹

Although not explicitly stated, Rossouw (2002) attempts to apply a taxonomic methodology in assessing the validity of transferring the PDE from the just war tradition (the paradigm case) to the domain of business. This paper identifies the analogy

between war and business, and although it was found that the just war case had some bearing on both the content and manner in comparing the cases, there were sufficient disanalogies to warrant revisions in the application to the PDE in using the geometric approach.

Conclusion

While there are drawbacks to all ethical systems and principles, it is important not to lose sight that a key element in doing the right thing (and avoiding the wrong thing) is being disposed to the best that can be done in any given situation. The TFT offers a general theory and decision-making framework that captures the critical aspects of other major ethical approaches, as well as addresses the deficiencies of such approaches. It readily accommodates virtue ethics into its framework. The TFT offers a comprehensive and practical approach to ethical decision-making and is a useful alternative embedded in traditional wisdom; it can be used for analysing moral issues and dilemmas. The role of practical judgment is indispensable in bridging the understanding among precepts, principles, and the application of ethical decision-making rules.

Notes

¹ Contractarianism is a family of moral and political theories that makes use of the notion of a social contract to define and defend moral conceptions. Legalism or legal positivism is a theory about the nature of law, commonly thought to be characterized by: (1) that there is no necessary connection between law and morality, and (2) that legal validity is determined ultimately by reference to certain basic social facts (Audi, 1995a, b).

² This paper adopts an Aristotelian–Thomistic view of rights based on Natural Law and Natural Rights (see for example, Finnis, 1999).

³ Proportionalists reject the distinction between direct and indirect consequences of an action. However, as Sulmasy (2000) points out, proportionality includes the objective weighing of consequences of an action, which demands that this be done in a publicly defensible manner. One is not free to decide idiosyncratically that the good outweighs the bad. For example, one

cannot use the PDE to justify taking grave risks in order to secure trivial goods.

⁴ For instance, Williams (2001) points out that although the PDE has been seen as of immense practical importance and an ethical cornerstone in the medical treatment of the terminally ill, it has been criticized as being unjustified, hypocritical, sophistic, disingenuous, and obfuscatory.

⁵ Much of criminal law is based upon the notion of intention, and we must trust juries to distinguish between degrees of murder based on intention. Harms done intentionally are both bad and wrong; harms done unintentionally may be bad, but except for specific situations, such as negligence, are not considered wrong.

⁶ MacIntyre (1985, p. 244) observes that since the Enlightenment, there has been an inability to agree upon a list of virtues and upon the relative importance of virtue concepts with a moral scheme. Hursthouse (1999, p. 237) admits that defending virtue theory against all possible criticism would be a lifelong task.

⁷ Horvath (1995) claims that only a person of virtue can successfully implement a principles-based ethic.

⁸ Fowers (2003) states that ethical precepts only really came to light in view of the specific features of the case or situation, and such details serve to qualify the results of any abstract reasoning in ethics.

⁹ Jonsen and Toulmin (1988) describe the transition in classical Roman society from an arbitrating society to a more rules-based one because of the following: (1) as Rome expanded, so did the case load, and less experiential judges had to settle disputes, and since their judgments were not always trusted, rules were articulated to measure the correctness of their decisions, (2) since rules were needed, law schools were established that found the teaching of rules more expeditious than the formation of prudential character, (3) the entrance of non-Romans into Roman society required a concordance between laws of the new peoples and Roman law itself, and (4) as the empire grew so did its bureaucracy and its operating procedures made further appeal to rules.

¹⁰ The fetus is not a formal unjust aggressor in that it does not intend to threaten the mother's life but is a (material) unjust aggressor or quasi-aggressor since the fetus is, de facto, a threat to her life.

¹¹ Nussbaum (1986, p. 299) writes "principles are perspicuous descriptive summaries of good judgments, valid only to the extent to which they correctly describe such judgments" and "a good rule is a good summary of wise particular choices and not a court of last resort." (Nussbaum, 1988, p. 44).

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Reconciling situational social psychology with virtue ethics

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For the past four decades, debate has occurred in respect of situational social psychology and virtue ethics. This paper attempts to reconcile this debate. Situationists propose a fragmentation theory of character (each person has a whole range of dispositions, each of which has a restricted situational application) and do not subscribe to a regularity theory of character (behaviour is regulated by long-term dispositions). In order to support this view, they cite a number of experiments. It is proposed that the substantive claims made by situationist social psychologists, for the most part, do not undermine or disagree with an Aristotelian virtue ethics perspective, but stem from a misunderstanding of concepts of moral character, faulty conclusions and generalizations in respect of experimental results. Situationists take a narrow view of character and morality. Evidence from organizational behaviour and managerial research literature supports the view that both situational (organizational) features and inner characteristics (including virtues) are powerful influences and determinants of morally upright and morally deviant behaviour. The role of practical judgement in bridging these views is discussed. As a way forward in reconciling situational social psychology with virtue ethics, the paper proposes an Aristotelian–Thomistic framework to overcome some of the problems associated with inadequate regulative ideals in building a normative moral theory.

Virtue Ethics and Social Psychology

The controversy between virtue ethics and social psychology has been described as one of the most venerable and most heated debates in philosophy (Doris and Stich 2006), an area so contentious that some participants fear a ‘dialectical stalemate’ (Fischer 1994). Situationist social psychologists propose that behaviour is explained by situational features and that, essentially, character and virtues do not matter. Some have argued that situationists have misunderstood classical or Aristotelian virtue ethics, and so have been attacking the

wrong target when they propose or recommend an alternative which is already part of classical virtue ethics itself (Annas 2003). There is also the view that, rather than undermining the idea of character traits, social psychology instead sheds light on the manner in which character development can occur (Samuels and Casebeer 2003). Others believe that the lesson to be learnt is substantially narrower than the social psychology movement seems to believe, but situationists have found a reasonably small number of previously unrecognized aspects of situations that tend to make it difficult for people to live up to their own

Reconciling situational social psychology with virtue ethics

moral aspirations (Sabini and Silver 2005). Although some defenders of character say that no problem is raised by the psychological literature for character or virtue-based ethics, Besser-Jones (2007) is of the view that there are real and serious problems suggested by the psychological evidence, as the concept of character is far more complex than most people initially thought. Certainly, there are merits to the preceding views, and a proper understanding of the situationist literature shows not only that the situationists' thesis does not undermine virtue ethics moral characterological psychology, but in fact deepens our understanding of human behaviour, in spite of the deficiencies and misunderstandings of their theory.

As the issue of character is central to the understanding of the situationist–virtue ethics controversy, it is important to make a distinction between the concepts of character and personality, as well as the difference between personality and the associated natural (non-moral) dispositions, and between character and the associated cultivated (moral) dispositions. Modern usage tends to apply the terms 'character', 'dispositions', 'traits' and 'personality' interchangeably. Certainly, each of us has a personality – that which distinguishes us as a person. For example, we can speak of Type A or Type B personalities, Myers–Briggs classification or enneagrams which represent natural (non-moral) dispositions which describe qualities of people. We can therefore speak of associated non-moral traits such as introversion–extroversion, neuroticism–emotional stability, and so on. However, character (moral and non-moral) incorporates both values and behaviour and can be described as qualities that distinguish one individual from another.

The next section presents the situationist social psychologists' thesis and highlights experiments which have been used to support their position. The third section reviews an Aristotelian virtue-based characterological moral psychology and concludes why the experiments reveal that most people have

weak characters, especially when confronted with situations that challenge their behaviour to do the right thing. In particular, four considerations are presented in the fourth section ('Virtue and Character Traits') to explain why situationist social psychology is based on a misunderstanding of virtue ethics. This is followed by the section entitled 'Interpreting the Experiments', which argues that the substantive claims made by situationist social psychologists are generally not in opposition to a proper understanding of an Aristotelian virtue ethics. The section headed 'Role of Practical Judgement' points to the development of an Aristotelian–Thomistic framework (seventh section) in addressing the issue of regulative ideals in building a normative moral theory. The paper ends with recommendations for promoting ethically upright behaviour.

The Situationist Social Psychologists' Thesis

The general thesis of situationism is that, in reality, personal dispositions are highly situation-specific and that it is incorrect to interpret behavioural consistencies in terms of robust traits (Annas 2003). Character must therefore be understood as comprising dispositional traits that lead people to act in distinctive and predictable ways, as determined by the situation. Situationism holds the view that morally significant behaviour is affected by the features of the immediate situation which: (1) are not in themselves morally significant; (2) are not, *prima facie*, of great motivational significance; (3) are not well known either to laypeople or to the philosophical literature; (4) are numerous; and (5) do not form a coherent class from the point of view of folk psychology (Sabini and Silver 2005). The main proponents of situationism are Doris (1998, 2002), Harman (1999, 2002a,b, 2003, 2007) and Zimbardo (1971, 2004, 2007). Doris does not necessarily deny the need to abandon discussion on character, but argues that situationist research undermines the virtue ethics character-based moral psychology project.

Webber (2006) points out that situationists propose a fragmentation theory of character (each character trait is to be specified with reference to a range of situational features with the result that each person has a whole range of traits each with very restricted situational application) and do not subscribe to a regularity theory of character (behaviour is regulated by long-term dispositions to have inclinations of certain strengths to behave in certain ways in response to certain kinds of stimuli, and the patterns discerned in the behaviour of individuals over time reflect these dispositions). Experiments in favour of the fragmentation theory cited in Doris (2002), Goldie (2004) and Merrit (2000) attempt to show that situational factors play a major or sole role in determining behaviour, and such behaviour cannot be attributed to character traits. Alzola (2006) and Webber (2006) identify five distinct types of experiments: (1) obedience to authority (Milgram 1974; Zimbardo's (1971) Stanford Prison Experiment); (2) mood effects (Isen and Levin 1972); (3) bystander studies (Asch 1951; Latane and Darley 1968, 1970; Latane and Rodin 1969); (4) Good Samaritan or hurry-factor (Darley and Baston 1973); and (5) honesty and deception in school children (Hartshorne and May 1928). Under the first category of experiments is the Stanley Milgram's Yale University Study – perhaps the most famous social psychology experiments described in Milgram (1974). In the Milgram experiment, an experimental assistant (an accomplice) asked each subject to administer 'electric shocks' to another subject-accomplice (a confederate or experimental assistant) each time the subject-accomplice made a mistake on a word-learning exercise. After each mistake, the subject was asked to administer a shock of higher voltage which resulted in 'apparent' audibly increasing distress from the subject-accomplice. Over 60% of the subjects shocked their subjects-accomplices through to the highest voltage (Milgram 1974). The Milgram experiment apparently shows that it is not character that causes one to inflict great pain on an innocent person,

but rather the situation in which an expert demands one's obedience.

Characteristics of these experiments are reflected in many business-context situations. Trevino and Brown (2004) remark that it is the organizational context that creates additional pressures, and complexity that challenges ethical behaviour: it is difficult to 'just say no' to a boss who demands making the numbers at all costs, to go above the boss's head to someone in senior management with suspicions that 'managing earnings' has somehow morphed into 'cooking the books', to walk away from millions of dollars in business because of concerns about crossing an ethical line, or to tell colleagues that the way they do business seems to have crossed that line. Trevino and Brown (2004) also cite a number of empirical studies that show that the majority of adults are not fully informed when it comes to ethics; they look outside themselves for guidance in dealing with ethical dilemma situations and base their behaviour to a large extent upon what others expect of them (an example of the bystander phenomenon). The fall of Arthur Andersen provides examples of a number of the characteristics of the social psychologists' experimental findings: (1) unquestioning obedience to senior partners (obedience to authority); (2) focus on profits at the expense of providing professional business and advisory services (degree of hurry and bystander effects); and (3) an organizational culture that promoted unethical behaviour (mood effects). Gandossy and Sonnenfeld (2005) identify these situationists' phenomena in a number of organizational settings (including Enron, Royal Dutch/Shell Group, Adelphi Communications, Tyco, WorldCom, HealthSouth and Andersen) and discuss ways to overcome group pathologies and other situational phenomena exhibited by high-level executive and board teams.

According to situationism, therefore, traditional personality or character traits (for example, virtues such as honesty, kindness and cowardice) play less of a role in predicting and explaining behaviour than do particular

Reconciling situational social psychology with virtue ethics

situational factors. In other words, the views or strong intuitions about the status of character traits and character development are either mistaken or do not exist. Even minor and seemingly irrelevant differences in the experimental or perceived conditions seem to make significant differences in how people behave. The experiments in social psychology seem to demonstrate that a wide selection of people, who presumably have different character traits, react in more or less the same way in situations in which one would expect vices and virtues to become apparent (Berges 2002). Situationists refer to this as the fundamental attribution error (FAE) or correspondence bias. It is a bias toward explanations in terms of corresponding character or personality traits (ignoring situational factors) and is associated with a perceptual tendency to pay more attention to a figure (the alleged possessor of character traits) than to its grounds (the concrete situation in which the person acts) as explanatory factors in the person's action (Nisbelt 1998). In other words, much of our ordinary moral thinking commits the FAE when someone assumes that behaviour patterns are due to the character traits of an agent, rather than to situational factors. It results from an apparent inflated belief in the importance of character or personality traits and dispositions, together with people's failure to recognize the importance of situational factors in affecting behaviour (Ross and Nisbelt 1991). Harman (2002a) notes that this correspondence bias results in a confirmation bias; that is, having attributed a character trait to a given person, an observer has a strong tendency to continue to attribute that trait to the person even in the face of considerable disconfirming evidence. In other words, there is a bias toward noting evidence that is in accord with the person's character and toward disregarding evidence against it.

Situationist social psychologists are of the view that virtue-based characterological moral psychology as well as personality psychology, subscribe to a globalist view of character in which character traits are robust and exhibit a

high degree of cross-situational consistency. 'Globalism' refers to theories that hold the following three characteristics (Alzola 2006; Stichter 2005): (1) 'cross-situational consistency' (character and personality traits are reliably manifested in trait-relevant behaviour across a diversity of trait-relevant eliciting conditions; that is, character traits are robust); (2) 'stability' (character and personality traits are reliably manifested in trait-relevant eliciting conditions and traits that remain over time); and (3) 'evaluate integration' (in a given character or personality, evaluative valence is probabilistically related to the occurrence of other traits with similar evaluative valences; that is, the idea that virtues form a unity). Doris (1998) refers to evaluative integration as the 'evaluate consistency thesis' and gives the example that the expectation is that a generous person is more likely to be compassionate than callous. A compassionate and generous person is evaluatively consistent, while a callous and generous person is not. Good character is supposed to be an integrated association of robust traits, and the virtuous person will consistently and predictably conduct himself or herself appropriately in various and novel situations.

Situationist social psychologists claim that both characterological moral psychology and personality psychology are empirically inadequate, as the experiments fail to reveal the behavioural patterns expected by globalism. Harman (2002a) is of the view that personality theory or personality psychology is in very bad institutional shape and has collapsed as an academic subject. The claim supposes that (Aristotelian) virtues are robust or substantially resistant to contrary situational pressures in behavioural manifestations, so that a virtuous agent will act virtuously in a consistent manner, across a wide range of situations in which character is being tested. Harman (2002a) concludes that the evidence indicates that people may differ in certain relatively narrow traits but do not have broad and stable dispositions corresponding to the sorts of character and personality traits that people are normally

supposed to have. Doris (1998) also states that trait attribution is often surprisingly inefficacious in predicting behaviour in novel situations, because differing behavioural outcomes seem to be a function of situational variation more than individual disposition. In other words, behavioural reliability or cross-situational consistencies vary widely. The results of the experiments challenge the assumption that the subjects have robust character traits; it appears that people's behaviour is consistent within each situation, but this consistency does not extend to other situations, and even slight variations in the features of a situation can lead to dramatic shifts in behaviour (Kunda 1999, 499).

In summary, situationist social psychologists reject a globalist view of human nature (the idea that people possess robust character traits which enable them to withstand situational pressures and behave consistently across situations). They propose a situationist view as an alternative, more empirically adequate conception of character or personality structure (the idea that people lack robust character traits and therefore behave inconsistently across situations). The behaviourists' approach subscribes to the view that an individual's behaviour is determined by a large array of 'local character traits', each elicited by a certain combination of situational features (Webber 2007a). Doris (1998) outlines three characteristics of such a view: (1) behavioural variation across a population owes more to situational differences than to dispositional differences; (2) an individual to whom we have attributed a given trait will often behave inconsistently with regard to the behaviour expected in attribution of that trait; and (3) personality structure is not typically evaluatively consistent, as the dispositions operative in one situation may have a very different evaluative status from those manifested in another situation. Behavioural evidence suggests that a personality structure is evaluatively fragmented (seemingly insignificant variations in situations may affect inconsistent behaviour) rather than an evaluative integration of robust character

traits. Doris (1998, 2002) suggest that situationism allows the useful possibility of temporally stable, situation-particular local character traits that may reflect dispositional differences among persons. As such, two normative theses are proposed: (1) people should be evaluated not in terms of robust character traits, but rather in terms of local situation-specific traits; and (2) moral education should aim not at inculcating robust virtues, but rather at helping bring about situations propitious to virtuous behaviour.

Research in organizational behaviour supports the view that organizational cultures provide situational settings that can have powerful influences on behaviour. Trevino (1986) remarks that organizational culture (defined as a set of assumptions, values and beliefs shared by organizational members) influences thoughts and feelings and guides behaviour. Victor and Cullen (1988) demonstrate that organizations have distinct types of ethical climates and that there is variance in the ethical climate within organizations; in particular, the socio-cultural environment, organizational form and organizational-specific history are identified as determinants of ethical climates in organizations. A number of studies in management and organizational research have also shown that: (1) ethical behaviour depends on the employee's ability to recognize ethical issues, and that this ability appears to be a function of corporate culture more than of individual employee's attribute; (2) people can be inoculated against crowd-induced indifference by being taught to recognize organizational influences, and to act appropriately in spite of it; and (3) individuals with weak dispositions are more likely to be shaped by the situational features inherent in an organizational setting (Alzola 2006; Beaman *et al.* 1978; Chen *et al.* 1997; Davis-Blake and Pfeffer 1986; Hartman 2006; Slater 2004; Synder and Ickes 1995). For example, Chen *et al.* (1997) argue that behaving ethically depends on the ability to recognize that ethical issues exist, and efforts to increase ethical standards and decrease pressure to behave unethically

Reconciling situational social psychology with virtue ethics

should concentrate on the organizational culture. Card (2005) notes that the analysis stemming from Milgram's experiments suggests not simply that individuals temporarily abdicate their moral agency on occasion, but that there is an erosion of moral agency within organizations; business ethics should therefore incorporate the relevant insights from social psychology research.

Aristotelian Virtue-based Characterological Moral Psychology

Aristotelian moral characterological psychology studies morality in its psychological dimensions and includes moral commitment, intention, action, emotions, judgement and character. Central to this moral psychology is the concept of virtue ethics which attempts to answer the question, 'What kind of person should I be?' This approach grounds the character of the morally good agent in the view that the content of virtuous character is determined by what the agent needs or what the agent is (Oakley and Cocking 2006). A virtue is a character trait which is well entrenched in its possessor and makes the possessor virtuous. A person can be described as virtuous when his or her intuitions, perceptions, emotions and principles cohere; and he or she acts in a way that expresses this coherence (Hartman 2006). Virtues therefore entail having stable and reliable dispositions, and acting in accordance with them, that is, by right reason. Virtues are not unreflective habits, but dispositions to act which are exercised through practical wisdom. The development of a virtuous character is directed toward a *telos* (goal) of *eudaimonia* (human flourishing). Character consists of virtues that enhance human flourishing and vices that impede it. Aristotle (1962) describes virtuous character as a state concerned with choice, lying in a 'mean' (determined by practical wisdom) relative to us. This mean (sometimes referred to as the 'golden mean') is the virtue that lies between two vices (an excess and a deficit) and reflects a disposition to do the right thing,

at the right time, in the right amount, in the right place, with the right person, and so on. For example, the excess of the virtue of courage is foolhardiness or recklessness; its deficit is cowardice.

Aristotle (1962) also distinguishes between intellectual and moral virtues. The former are acquired through education, whereas the latter are developed through practice. The intellectual virtues include *sophia* (theoretical wisdom), *episteme* (science), *nous* (intuitive understanding), *phronesis* (practical wisdom or judgement), and craft expertise. The moral virtues (justice, fortitude and temperance) represent the fundamental modes by which an individual approaches a human good as discerned by practical wisdom. Together, the four virtues (practical wisdom, justice, fortitude and temperance) comprise the cornerstone or *cardinal* virtues; all other human virtues can be understood as components associated with the cardinal virtues which lay the foundation for a unified character. Practical wisdom appropriates a particular human good directly by the action of the intellect which determines how best to actualize that good; justice directs external actions in such a way as to conform to reason; fortitude and temperance moderate the passions in such a way that the individual spontaneously desires what is truly in accordance with the specific good of the human person and avoids what is not in accordance with the human good (Porter 1990).

In the characterological approach, internal disorders or conflicts of competing character traits arise because of defective or non-virtuous character. The virtuous person is not subjected to conflicts, as the virtues act harmoniously or in psychological unity. This should not be taken to mean that the virtuous person does not act inconsistently because he or she weighs and balances all the factors of a particular situation. Each situation is unique, and deliberation may result in different actions or decisions. Indeed, in a decision which involves a painstaking moral deliberation, a virtuous person may do what he or she believes is right, but this may actually turn out

to be wrong; the person should still be praised for acting virtuously, even if mistakenly (Ledden 1947). The point still remains, however, that the virtues act in harmony in arriving at a decision in that particular situation. Where conflicts arise are in those various states of non-virtuous behaviour. In such cases, there is interior turmoil or a lack of internal harmony. Homiak (2003) points out that some agents, having arrived at a decision about what to do in a particular situation, experience some counter-pressure brought on by an appetite for pleasure or anger (or some other emotions), and this countervailing influence is not completely under the control of reason, owing to a lack of development of the appropriate virtues. Multiple considerations (Hartman 2006) and multiple principles (O'Neil 2001) also push us in conflicting directions.

An Aristotelian virtue ethics perspective, unlike personality psychology, does not subscribe to a globalist view of character as being true of anyone who is not virtuous. The lack of behavioural cross-situational consistency as demonstrated by the experimental research findings shows that most people, although equipped with some character traits, cannot be described as virtuous agents as understood by virtue ethicists. Virtuous agents possess a full set of firm character traits, and such persons may reliably exhibit cross-situational consistency. Under a virtue ethics moral psychology, character does not reliably determine most people's behaviour: a result that is consistent with the situationist social psychology experimental findings.

The experiments therefore reveal that most people have weak characters, especially when confronted with intense situations that challenge morally upright behaviour, and that virtuous agents may not be as numerous as many people might believe. Besser-Jones (2007) argues that the strength or weakness of character refers to the extent to which an agent is able to act on his or her moral beliefs (evaluation of morally good and bad refer to the nature of those moral beliefs). A person of weak character, for example, can have a set of

morally good beliefs, yet is not able to form a strong connection between beliefs and dispositions. One can also have morally bad beliefs and forge a strong (consistent and reliable) connection between those beliefs and dispositions. Virtues (vices) are good (bad) habits or character traits that are made firm by habituation and practice. Virtues do not determine a person's behaviour, but they determine the way that person is and his or her disposition, which are expressed in one's decision determined through rational deliberation (Alzola 2006). One would certainly expect a non-virtuous agent not to possess firm character traits.

Annas (2003) infers that, since virtue is a disposition to decide in a way that has been built up through both experience and intelligent habits of choosing and coming to understand the values involved, it is unreasonable to expect that virtue ethics can reliably predict behaviour. One can only realistically predict others' behaviour (and perhaps not so accurately) only when one has intimate knowledge of a person's beliefs and behaviours in a variety of situations over some period of time. Webber (2007b) argues that this requires a collective enterprise in which (sufficiently open-minded and sufficiently critical) people get to know each other over significant periods of time; one can then learn about the nature of character traits, the ways in which they develop, the ways in which they can conflict or harmonize, and the practical advantages and disadvantages of particular traits. This implies that, in order to help employees and show concern for them, it is important to get to know them very well. This, of course has its own challenges, especially in large and expanding organizations, and in organizations that have high turnover of employees.

Virtue and Character Traits: Four Considerations

There are four considerations or distinctions that explain why situationist social psychology diagnosis relies on a misreading of the virtue ethicists' descriptive commitments in moral

Reconciling situational social psychology with virtue ethics

psychology: (1) the Aristotelian description and distinction between the enkratic vs the virtuous, and between the akratic vs the vicious; (2) the distinction between the akratic agent and the vicious agent, and between the enkratic agent and the virtuous agent; (3) the distinction between virtues and natural dispositions; and (4) the distinction between 'acting from virtue' and 'acting in accordance with virtue'.

Enkratic (Akratic) vs Virtuous (Vicious)

The Greek term *enkrateia* means continence or self-mastery, and describes a person who experiences feelings that are contrary to reason (for example, passions that conflict with rational choice), but acts in accordance with reason; the Greek term *akrasia* literally means 'lack of mastery' or incontinence, and describes a person who experiences feelings that are contrary to reason, and gives into such feelings rather than reason (Homiak 2003). The enkratic agent may act in a virtuous manner by resisting contrary impulses from disordered desires and emotions, while the akratic agent may act in a non-virtuous manner despite the intention to act virtuously. Berges (2002) points out that both the enkratic and akratic agents fall short of virtue (possession of stable character traits), although both, to some extent, know what is the right thing to do, but are plagued by strong emotions and appetites. In the case of the akratic, the agent may end up doing the morally wrong thing because of weakness of will; the agent allows the non-rational (emotions) to rule the rational appetite (the will) against better judgement and good intentions. In the case of the enkratic, although the rational appetite is able to order the non-rational appetites, the agent does so at the cost of renewed assaults from the rational. In both cases, the action is not as blameworthy as the vicious, but not as praiseworthy as the virtuous. Porter (1990) notes that there is something praiseworthy about struggling to do the right thing when all one's desires and fears are pulling one in the opposite direction.

One can train one's passion in such a way as to respond appropriately (that is, in accordance with what practical judgement or right reason dictates in a given situation) by taking the actions of a virtue even before one can perfectly possess the virtue. Therefore, 'the person of imperfect virtue, who struggles to do the right thing, has not yet achieved the ideal harmony of the fully virtuous person, but she is moving in that direction and her struggles are themselves praiseworthy, precisely because they are directed toward a still better ideal of human excellence' (Porter 1990, 115).

Further, Aristotle distinguishes between two kinds of *akrasia*: *astheneia* (weakness) and *propeteia* (impetuosity). The person who is weak goes through a process of deliberation and makes a choice; but rather than act in accordance with his or her reasoned choice, he or she acts under the influence of passion. By contrast, the impetuous person does not go through a process of deliberation and does not make a reasoned choice; he or she acts simply under the influence of a passion (Kraut 2005). It appears the situationists adopt a narrow view of character that can be identified with the impetuous. Social psychologists reach their conclusions that people lack character because they are working with an incomplete account of character.

Akratic (Enkratic) vs Vicious (Virtuous)

It appears that the akratic and vicious persons are identical with respect to external behaviour, but the difference lies in that the latter knows the right course of action but fails to do so because of a weak will or a lack of deliberation. Similarly, the enkratic agent shows signs of firm character traits since he or she may act reliably in doing the right thing and is able to resist desires that are contrary to what is believed to be right, in spite of assaults from the non-rational appetites. However, a truly virtuous agent would not only not be tempted by situational factors and so not suffer from violent assaults of the appetites and emotions, but in fact would find pleasure

in refraining from unethical acts and enjoy performing ethical acts (Alzola 2006). The difference between a virtuous (vicious) act and an enkratic (akratic) act is that the latter involves a struggle to overcome contrary inclinations; the difference between the enkratic agent and the akratic agent is that the former wins the struggle for how the agent believes he or she ought to act. Webber (2006, 207) observes that it seems that weakness of will results from the greater relative strength of the inclination acted upon when compared with the combination of the inclination according to which one believes one should act and the inclination to do whatever one believes one should do; self-control results from this combination being stronger than the inclination to behave otherwise. Berges (2002) also notes that, as moral education is supposed to teach us, a sign of good character is not simply when we do the right thing in the right circumstances, but when the agent ought to find pleasure in doing the right thing and in feeling appropriate emotions and desires at appropriate times; this is not possible if one is struggling against emotional assaults to do otherwise. Many ordinary people waver between enkratic and akratic characters, between performing good and bad actions; it is a matter of degree along a continuum. This explains the concept of the 'slippery slope' or back-sliding, since both types of agents have not yet achieved full control over their desires, appetites and emotions. As such, pressures from the non-rational will 'pull' the agents down the slope to perform actions which are contrary to what they believe to be right.

Virtues vs Natural Dispositions

Although the natural dispositions may be termed character traits, Berges (2002) points out that they fall short of virtues in that they are not the product of systematic conscious habituation and therefore are not reliable. Having an undesirable natural disposition, for example, lacking honesty does not imply that a person never behaves honestly, but that the

person does not act honestly across a variety of situations (Stichter 2005). Human personalities are not typically structured as an evaluatively integrated association of robust traits, so that one would expect to find much variability across situations and not observe substantial consistencies. Berges (2002) identifies several distinctions between natural dispositions and virtues. Natural dispositions or traits are not the product of habituation and are simply the raw material on which habituation must be set to work. Unless it is made firm through habituation (doing the right thing through practice), a natural disposition can be improved or worsened, so there is no reason to believe that this concept of character trait would be reliable and so display cross-situational consistency (someone who is naturally kind may behave unkindly in some situations; someone who is naturally mean may behave generously in some situations). Virtues, in contrast, are the result of a process of conscious and systematic habituation which are anchored in firm beliefs or principles. No agent, therefore, is naturally virtuous, since he or she is not naturally in possession of firm character traits; such agents are neither virtuous nor vicious, but merely incapable of acting according to firm motives because they lack stable character traits. Shoda *et al.* (1990) describe an experiment demonstrating dispositional consistency over time in the case of willingness to delay gratification. At ages 4 and 5, this willingness was correlated with subsequent parental ratings of the children over 10 years later on factors such as coping, academic and social competency. Even taking into account school-related competencies, it was found that those who were able to delay gratification longer were rated as better able to cope with a number of personal and social problems.

People obviously have personalities with or without having acquired robust traits of virtues and vices as robust character traits require systematic conscious habituation over a long period of time across a variety of situations. Virtues and vices, therefore, are more

Reconciling situational social psychology with virtue ethics

than dispositions; they lead one to act in a certain way for characteristic reasons, in a characteristic manner, and to have characteristic attitudes and emotions (Alzola 2006). It is important to note that situationists (e.g. Doris 2002) do not claim that people do not have virtues, but that they do not possess character traits as traditionally conceived. In the Aristotelian view, Webber (2006, 205) defines a character trait as a relatively stable disposition to be inclined with a certain strength towards a certain kind of behaviour in response to a certain kind of situational feature. Virtuous traits are therefore not simply dispositions to behave in a certain kind of way whenever a certain kind of situational feature is present. Virtuous and vicious behaviours do not just consist in behaving a certain way consistently, but in that way on appropriate as well as inappropriate occasions. Results of the social psychologists' experiments reinforce the idea that proper habituation only takes place in appropriately structured environments (Samuels and Casebeer 2003).

In addition, traits are virtues only if the inclinations are tempered by other inclinations so that full possession of any one virtue means habitually being inclined to behave in a certain way with the right degree of strength (relative to the strength of other habitual inclinations) in the presence of a certain situational feature (Webber 2006). Alzola (2006) also remarks that situationists attribute behaviour to a wrong disposition. For example, Solomon (2003) points out that obedience to authority is more robust (since virtually everyone has been brought up with this virtue) than compassion (a virtue more often praised than practiced). Hartman (2006) also points out that the Asch experiment fails to distinguish between the character traits of intellectual courage and the vice of stubbornness. Others (De Paul 2000; Miller 2003) have claimed that the experimental data are irrelevant to characterological ethical discourse, as they do not view virtues such as compassion to be widespread, but to be ideals for which we should aim. Character traits attributions are

justified only after observing how a person reacts to a variety of situations overtime and not just in one or even a few situations.

Webber (2006) argues that the regularity theory understands character as behaviour to be regulated by long-term dispositions to have inclinations of certain strengths to behave in certain ways in response to certain kinds of stimuli, and the patterns discerned in the behaviour of individuals over time reflects these dispositions. In other words, in order to count as a character trait, such a disposition ought to yield an inclination of about the same strength whenever the subject is confronted with similar or dissimilar situational features. To be virtuous, therefore, is not the same as dispositions to behave in a certain kind of way under a particular situational condition.

Acting from Virtue vs Acting in Accordance with Virtue

There is a distinction between acting from virtue (virtuous acts in themselves) and acting merely in accordance with virtue (virtuous acts in general). In other words, there is a different moral worth between doing a just act (acting in conformity with virtue) and performing an act justly. Audi (1995) advises that virtue ethics should tell us not only what the right thing to do is, but also what constitutes acting from virtue. Merely to do the right thing, say, from self-interest, is not to live up to a standard of virtue. Therefore, the existence of objective moral standards and acting in conformity with them do not guarantee moral worth; virtues are required to realize these standards, and acting from virtue is the main basis of the moral worth of agents.

Interpreting the Experiments

The substantive claims made by situationist social psychologists in fact do not, for the most part, undermine or disagree with a proper understanding of an Aristotelian virtue ethics, but rather stem from a misunderstanding of concepts of moral character, faulty conclusions

and generalizations of experimental results. In fact, not only is the situationist thesis not in opposition to virtue ethics, but the former empirically reinforces and enriches the understanding of the latter. Situationists set up a dichotomy in that one either views character traits as relevant to the explanations of behaviour or views features of the situation as relevant to the explanation. Webber (2006) (1) remarks that the situationist literature gives ambiguous definitions of the position to which they are opposed, and (2) argues that the experimental data provide evidence for the situationist view only if we understand the data in the light of a behaviourist understanding of traits in terms of stimulus and response, rather than in the light of more traditional understanding in terms of inner traits such as inclination. An Aristotelian virtue ethics subscribes to the view that both features of the agent (including inclinations, intentions, desires, beliefs, etc.) and of the situation are relevant in explaining how a person would respond under different situational factors. Solomon (2003) observes that the unexpected behaviours exhibited by subjects in experiments of social psychology may be due to the presence of competing virtues such as respect for authority (as in the Milgram experiment) or a sense of responsibility or obligation to fulfil an appointment (as in the Darley and Baston experiment).

Of the five kinds of experiments cited in favour of the fragmentation theory, Webber (2006) argues that two should be discounted. The first are the mood experiments, as it has been pointed out that repetition of these experiments has yielded wildly differing results and nobody has shown that minor situational variations affect the likelihood of responding to someone seeming to be in serious distress. The other experiment to be discounted is the Stanford Prison Experiment because no repetition and no control groups as well as the extreme conditions (the disorienting nature of the opening stages of the experiment for the prisoners, the sheer strangeness, and the threatening instability of the situation faced by the guards) make it difficult to be

confident of any extrapolation to less extreme situations. With respect to the interpretation of the experimental empirical data, Alzola (2006) summarizes several methodological objections and limitations: (1) ecological validity (a given experimental finding does not accurately reflect the phenomena found in natural contexts); (2) in some cases, psychological results are less reliable, as experimental results are less conclusive (subsequent variants of the same experiments show less conclusive results); (3) extreme and novel experimental situations (the experimenters observed behaviour in extreme situations, far removed from everyday life); (4) limitations of cross-sectional studies (the experiments did not track the behaviour of individuals across situations; they observed any given individual only on one occasion in a particular situation); (5) inferences of individual behaviour from group behaviour (it is misleading to infer individual behaviour from group outcomes; see also, Kamtekar 2004, 466); and (6) inferences of adult behaviour from children (it is inappropriate to infer adult behaviour from children). Stichter (2005) also notes that in none of the experiments are the subjects tested in a variety of situations or over an extended period of time to determine whether they exhibit any stable dispositions. The experiments were not designed to test for the presence or absence of dispositions, and so it is unclear how conclusions about character traits could be established in experiments where character traits were neither being tested nor controlled. Annas (2003) points out that, in general, social psychologists end up ascribing too much to the power of situations because they have come to the experiments with a notion of character as an unreflective habit of stereotypical response that can be reliably predicted over a wide range of situations.

Sabini and Silver (2005) conclude that the single thread that runs through social psychology's discoveries of people acting in surprising and demoralizing ways is strongly influenced by what they take to be other people's perceptions. People who must act in such circumstances

Reconciling situational social psychology with virtue ethics

are confused and inhibited by the anticipation of embarrassment, and are unaware of how potent fear of embarrassment is in motivating (moral) behaviour. Sabini and Silver (2005) conclude that this phenomenon is partly cognitive (people tend to lose their moral compass), and partly a matter of people being unable or unwilling to expose themselves to disruptive social situations including their contrary perceptions.

Virtue ethicists do not deny that ordinary moral thinking commits the FAE, but the FAE is an informal fallacy, as the fact that people are prone to make this generalization shows that it is a common fallacious type of reasoning, but it does not follow that there are no character traits (Stichter 2005). In other words, ordinary moral thinking would typically and fallaciously explain behaviour in terms of character traits (or lack of character traits), ignoring situational factors. However, there is no reason to believe that ordinary moral thinking might lead people to view the experimental results as due only to character defects. If people valued obeying authority more than we believed they did, then this would leave intact the explanation that behaviour follows from values, desires and beliefs (Sabini and Silver 2005). Knowledge of the FAE would, however, enable character development, as it can help to minimize the influence that the environment and situation have on one's behaviour (Samuels and Casebeer 2003). Only people who recognize and understand the subtle power of situational factors can take control of their ethical choices. For example, Ross *et al.* (1975) found that artificially created (false) beliefs in an experiment persevere despite normal debriefing; only under process debriefing, in which subjects were made to understand the processes behind the creation of the false beliefs, were the effects (perseverance) of the false beliefs eliminated. In another experiment that focused on the FAE and why people did not help, students of a social psychology class reported that they were able to overcome both of these biases in specific situations up to two years after they

took the class (Samuels and Casebeer 2003). Webber (2007b) purports that the FAE cannot play the explanatory role required of it, and that there is no experimental evidence that the subjects do make such an error. The fact that trait attributions often go wrong can be best explained by a set of difficulties that beset the explanation of other people's behaviours; such difficulties become less acute the better one knows the agent.

Sabini and Silver (2005) offer, perhaps, the most comprehensive critique of the experiments. In Hartshorne and May's (1928) study, correlation measures of traits like honesty, do not go very far in revealing what virtue ethics need to know, for instance, how many honest people there are or could be. In addition, consistency measures are even worse at describing traits such as generosity or traits that have motivational components. In the bystander studies of conformity, the pressure to conform to the majority, depended not on how many experimental assistants gave the wrong answer, but on their being unanimous: when people were confronted (without allies) by a view of issues different from their own, the subjects could not be trusted to follow the dictates of their own consciences against the commands of authority of a group. The subjects' failure to respond appropriately to the situation could follow from their beliefs that emergencies are objective matters (especially if other people as not treating the situation as an emergency). With respect to the 'Good Samaritan' experiment in which social psychologists conclude that the 'degree of hurry' was the major factor in determining behaviour, the essential ambiguity common to this situation and other helping situations, is that the victim appeared somewhat ambiguously dressed (possibly in need of help, but also possibly drunk or even potentially dangerous). Also, it does not follow that the subjects' religious and moral views had little or no effect on behaviour.

Stichter (2005) notes that, in the Milgram experiments, there are some reasons to suspect that character traits could be relevant in

explaining the results. For example, what explains that, after 300 volts, more than one-third of the subjects stopped administering shocks at various times before reaching the maximum 450 volts? Webber (2006) also observes that, in the Milgram experiment, the subjects often displayed striking reactions of emotional strain and afterwards often reported significant levels of stress and nervous tension. The subjects acted apparently against their compassionate inclinations and not out of obedience to the experimenter. Webber (2006, 199) suggests that the experiment might be better described as deference rather than obedience to authority, since in another version of the experiment in which two experimenters gave conflicting instructions (one said to continue, the other to stop) over whether or not to continue at 150 volts, all the subjects stopped at that point.

Sabini and Silver (2005) argue that the key to the subjects' obedience is that the experimenter played a double role in producing obedience, and this is where one encounters the subtle situational forces. First, the experimenter is an authority, both in the sense of being in charge and as an institutional expert. The subjects obeyed, not because the experimenter wanted them to, but because the experimenter informs them that the experiment requires that they obey the orders (which follow a 'slippery slope'). Secondly, the experimenter is also viewed as a moral authority, in that it is morally appropriate for subjects to obey the commands. The experimenters were perceived to have moral authority which did not militate against the idea that the subjects were willing to obey authority.

Athanassoulis (2000) argues that the only conclusion to be drawn from the fact that almost all the subjects administered shocks past the point of severe danger is the hypothesis that administrators were seeking to test the extent to which people will follow orders from authority. Sreenivasan (2002) questions the legitimacy of drawing conclusions from experiments designed to test alternative hypotheses and notes: (1) that the experiments

favoured by situationists are those that rely on objective determinants, rather than subjective reporting of trait-existence (e.g. a subject may be doing what he or she thinks is the compassionate act, but the objective observers might think otherwise), and (2) the concerns about how the determination of what sorts of behaviour are relevant to the trait in question.

Milgram (1974) identifies two sets of factors that involved some form of self-deception that enabled the subjects to reconcile their immoral behaviour with their belief in the morality of that behaviour: (1) strategies of avoidance, and (2) transference of responsibility. Besser-Jones (2007) observes that these factors reflect that the subjects failed to be properly and sufficiently motivated by moral commitments, so situational factors tend to influence their behaviour to a surprising degree (in other words, there is a gap between their moral commitments and behavioural dispositions). Two possible explanations are suggested: (1) the subjects have the wrong moral beliefs, and (2) the subjects have the right moral beliefs, but did not act on them. The experimental evidence therefore does not call into question the existence of character traits, but rather it concerns the issue of moral motivations and beliefs.

Alzola (2006) cites a number of studies in organizational behaviour (career mobility and promotions, negotiation, attitudes, job performance and training proficiency, job satisfaction and co-operative behaviour) that have found some effects of dispositions on individual behaviour in the corporate setting. For example, Graham (1986) explores the impact of mood on an individual's ethical decision-making processes, and addresses how an individual's mood influences his or her willingness to report the unethical actions of a colleague. The research proposes that reporting intentions are influenced by the three determinants of seriousness, personal responsibility and cost. Further, Curtis (2006) finds that an individual's affective state was explained by demonstrating that seriousness and personal responsibility mediate the relationship between mood and whistle-blowing intentions. As well, virtue

Reconciling situational social psychology with virtue ethics

ethics in business have advanced the case for the role of virtues, especially an Aristotelian characterological moral psychology (Beadle and Moore 2006; Hartman 1998, 2001, 2006; Koehn 1998; Moore, 2002, 2005; Solomon 1992, 2003, 2004; Weaver 2006).

Webber (2006) shows that latitudinal studies in which different subjects are tested in the same situation can provide evidence of a deeper level of explanation that supports the regularity theory's view that the traditional conception of character traits has greater explanatory and predictive power than its situationist's rival. In one such study (Nisbett and Cohen 1996), the experiment was designed to explain that there is a difference in homicide rates between the northern and southern regions of the US. Each subject was asked to complete a questionnaire, deliver it to a room at the end of a long corridor, and return. Some subjects passed someone (an experimental assistant in the corridor) who had to close a filing cabinet to let them pass, then had to do so again on their return. On the return, the experimental assistant bumped the subjects with his shoulder and insulted them as they passed (for controlled subjects, the corridor was empty). In one variation of the experiment, subjects were then asked to complete a story. Seventy-five per cent of 'insulted southerners' ended the story in a violent way, while 20% of the 'controlled southerners' also did so. Having recently been insulted made no statistically relevant difference to how northerners ended the story. The results indicated that the insults made a significant difference in the case of southerners, but not in the case of northerners. Webber (2006) argued that the traditional notions of trait explained the homicide data in terms of a trait (the disposition to be strongly inclined to respond violently when insulted) prevalent among southerners but not northerners. Since homicide is committed in a wide range of situations, the behaviourist notion of traits precludes any explanation of the homicide data in terms of trait differences between southerners and northerners. While situationist moral psychology

may give us some critical insights into human behaviour, it does not necessarily make better predictions of human behaviour than the traditionally conceived regularity theory of character.

The interpretation of the experimental results supports the view that social psychologists conceive of character traits purely in terms of stimulus and response, rather than in the more traditional terms of inner mental items such as inclinations (Webber 2007a). Besser-Jones (2007) concludes that social psychologists are right to take an agent's dispositions to be reflective of one's character, but they fail to acknowledge *why* one does so, and so this leaves them with a watered-down account of character that equates the nature of a person's dispositions with that of an animal. Focusing on behavioural dispositions does not give a full appreciation of the central role character plays in rational deliberation. There is no need for virtue ethicists to revise their account of character, but it is certainly more complex than social psychologists believe. Besser-Jones (2007) defines the following three components of character: (1) the moral beliefs to which one is evaluatively committed, particularly those relating to an agent's interactions with others; (2) an agent's disposition to act; and (3) the nature and degree to which one's moral commitments influence one's behavioural dispositions.

Overall, there is strong justification in the organizational behaviour and management research literature to support the role of virtue in business, as many studies have found that not only situational or organizational features are powerful influences on behaviour, but also internal characteristics (strengths of disposition, desires, motivation and intention). For example, Jones and Ryan (1997) bridge the organizational theory/climate with individual ethical behaviour using a moral approbation (moral approval from oneself or others) model and consider four factors when determining the level of moral responsibility in a given situation: (1) the severity of the act's consequences; (2) the certainty that the act is moral or immoral; (3) the act's degree of complicity;

and (4) the extent to which the agent perceives the organizational pressure to comply with unethical decisions. Trevino (1986) uses a person–situation interactionist model of ethical decision-making in organizations that combines individual variables (moral development, ego strength, field dependence and locus of control) with situational variables (the organization's normative structure, referent others, obedience to authority, responsibility for consequences, reinforcement contingencies and other pressures) to explain and predict ethical decision-making of individuals in organizations. Jones (1991) proposes an issue-contingent model that combines moral intensity (a construct that captures the extent of issue-related moral imperative in a situation) with evidence derived largely from social psychology, in arguing that moral intensity influences every component of moral decision-making and behaviour. The American Behavioral Scientist devoted an entire issue to demonstrate that there could be a fruitful and mutually enriching relationship between the behavioural sciences and virtue ethics that provide stimulating perspectives about human limitations (Richardson 2003). In particular, Fowers and Tjeltveit (2003) set the context for a discussion of the place of virtue ethics in the behavioural sciences, and present virtue ethics as a framework that makes it possible to break down the standard dichotomies between facts and values, individual and society, and behavioural tendencies and a complete life. More recently, Van Sandt *et al.* (2006) draw from the fields of history, sociology, psychology, moral philosophy and organizational theory in establishing a theoretical connection between a social/organizational influence (ethical work climate) and an individual's cognitive element of moral behaviour. This paper provides empirical evidence of the connection between organizational influences and individual moral awareness.

Role of Practical Judgement

Philosophers have long realized and recognized the gap between knowledge (to know the

good) and action (to do the good). Besser-Jones (2007) argues that the empirical evidence points to the disparity between one's moral commitments (beliefs) and one's disposition to act. For instance, one may have the disposition to tell the truth or to keep a promise, but such disposition cannot be understood without any reference to one's moral commitment regarding the morality of telling the truth or keeping promises. In response to the situationists social psychologists' view, Perkins and Timmerman (2005) point out that, if character does not exist, from where does motivation come or where should efforts be directed to encourage individuals to make situational changes that support ethical outcomes? Besser-Jones (2007) also notes that this gap is characterized by two main factors: (1) lack of appreciation for or awareness of the demands and pervasiveness of one's moral commitments in the face of conflicting demands (the idea here is that closing or narrowing the gap is directly related to motivation; if one's moral action is guided by a regulative ideal, one should be able to form the requisite motivation to do the right thing); and (2) one may be unmoved by morality through a weak character or other factors (intellectual fear, ignorance, etc.). It is precisely the virtues, in particular, practical wisdom or judgement (*phronesis*), that establish the link between knowing and doing; virtues regulate the dynamic interplay between knowledge and behaviour in concrete situations, with awareness of all relevant information. Practical judgement entails having the right moral beliefs and the requisite knowledge to reach a decision in a concrete situation, and to act on this disposition to do the right thing. Closing the gap is the distinctive task of virtue-based theories, and in particular, practical judgement.

Practical judgement involves knowledge (including knowledge of the situation) brought into play in the concrete; it is an ability to recognize both morally and technically relevant features of a situation, and to deal effectively with them. Practical judgement, and virtues in general, are not mere intuition or unreflective

Reconciling situational social psychology with virtue ethics

habits, but a disposition to act which is exercised through a chain of reasoning. Practical judgement entails, 'a chain of reasoning whose first premises concern the human good, whose intermediate steps specify what the virtues require, if the human good is to be achieved, and whose conclusion is the action that is good and best for us to perform here and now' (MacIntyre 1999, 159). Practical judgement therefore presupposes that an agent acts to achieve an end or goal (human good), and the task of judgement is to determine the best way to achieve this goal. Porter (1990) observes that one who displays practical judgement will bring one's settled commitments to lead a good life to bear on one's actions and activities, thereby ensuring that one's actions are in accord with one's overall goal or ideal. Fowers (2003) notes that practical judgement involves three components: (1) moral perception (admirable actions are characterized by perceiving what is important); (2) deliberation (deliberating about how to address the central aspects of the circumstances); and (3) choice (choosing the most appropriate response in the given circumstances). Fowers (2003) also notes that ethical precepts only really come to light in view of the specific features of the situation before us, and that these details will serve to quantify the results of any abstract reasoning.

Of course other virtues come into play, but it is through practical judgement that virtues are exercised and developed. Practical judgement reflects the capacity to make wise decisions regarding which virtues are called for in particular circumstances, and the best way to enact those virtues (Fowers 2003). It regulates the other virtues by directing them toward their true end. The practically wise or virtuous person not only judges what is the right thing to do in a particular situation, but does so in light of the workings of the other virtues to which the situation is relevant (Annas 2003). For example, to understand what it means to act honestly in a given situation, one must also understand the other factors that would impinge on one's honesty.

Practical judgement therefore determines which course of actions would instantiate the other virtues in the specific situation (Porter 1990). For example, patience is required in not abandoning a challenging problem, discipline gives a sense of balance that keeps both details and the 'big picture' in focus, temperance keeps one from being swayed by impulse or first impressions, detachment allows one to attend to what is salient (irrespective of personal preference or bias), and relaxed attentiveness allows a receptivity to the problem with a sensitivity for what is relevant (Dunne 1999). Porter (1990) concludes that practical judgement takes into account the specifics of one's character and circumstances, and determines what it means for an agent to act in accordance with reason in the concrete situation. This is accomplished through determining the 'golden means' of the virtues relative to the individual and to the demands of equality and the common good.

It is important to examine the role of practical judgement in light of general principles or rules. Virtue ethics and agent-based ethics in general have often been pitted against rules-based or act-based ethics. However, some have argued that virtues are indeed not only compatible with rules, but lead to a richer conception of moral rules. Roberts (1991) argues that virtues are not simply dispositions to follow moral rules, but moralities can be thought of as systems of interlocking virtues; rules are therefore intimately connected with virtues. This idea reinforces the concept of not divorcing truth-telling from truthfulness or promise-keeping from faithfulness to promises. Therefore, training a person in moral action ought not to be divorced from training in virtues. In order to follow a rule well, one must understand the point or the goal of the rule which is the role of practical judgement and other virtues. Practical judgement begins with a dynamic orientation toward specific goods (goods that one desires that would achieve some human flourishing). Within a process of practical reasoning, one learns about what actions are or are not morally permissible or

conducive to the attainment of those goods (Hall 1990). Virtues, therefore, are not derivative of principles, but principles presuppose virtues (Waide 1988).

Situationists allege that a focus on principles is formally inadequate or ethically defective or morally suspect; they advocate that ethical reasoning and decision-making should focus or be responsive to situations (O'Neil 2001). They argue that principles will either be too abstract and indeterminate (suffer from excessive formalism) or offer an effective procedure or algorithm for guiding action that will prescribe uniformity and ethical insensitivity for situations that differ in subtle or ethically significant ways (suffer from excessive rigourism). Instead, situationists focus on the specificities of the actual situations so that ethical judgements are a matter of assessing situations in order to identify their salient ethical features. Situationists therefore take a narrow view of morality and neglect other important constituents such as the moral object of an action.

While general principles or rules are important for moral deliberation and identify broad requirements, they do not actually tell one what to do. Fowers (2003) notes that one generally subscribes to certain general rules or principles, such as 'do not hurt others unnecessarily', but these considerations are never sufficient to provide detailed guidance in a specific situation. The role of practical judgement is to fill the 'gap' between indeterminacy and algorithmic formulations. Action guiding rules cannot be applied correctly without practical judgement, because correct application of a principle or a rule requires situational appreciation – the capacity to recognize those features of a situation that are morally relevant (Hursthouse 2003). Practical judgement therefore brings the most pertinent considerations to bear in such a way that the most relevant concerns carry the most weight. Although there is no reasonable way of dispensing with principles, practical judgement cannot be a matter of inference from principles; principles form the point of reference for

practical judgement which ensures that action is consistent with the relevant principles (Fowers 2003).

Small (2004) observes that the study of practical judgement is a subject normally outside the traditional bounds of management studies, that business and managerial decisions frequently lack good judgement as reflected in the recent financial scandals and management blunders, and illustrates a number of examples of the application of practical judgement in business. In a study by Pasupathi and Staudinger (2001) which deals with measures of wisdom-related performance, moral reasoning, and a battery of cognitive and personality measures, it was found that, from a sample of over 200 subjects, moral reasoning was positively associated with wisdom-related performance. The study also found that very high levels of wisdom-related performance were unlikely among those with very low moral reasoning performance. The preceding suggests that the exercise of practical judgement ought to be integrated into the various management and business decisions.

In the final analysis, what is required to reconcile situationist social psychology with virtue ethics is a normative moral theory concerned with regulative ideals as suggested by both situationists (Doris 1998) and those who support character-based ethics (Besser-Jones 2007) to explain and guide human behaviour, with the ethical aims of character development and situation management (Webber 2007a). This issue is addressed in the next section.

Toward an Aristotelian–Thomistic Framework

Social psychologists therefore underestimate or fail to appreciate the intellectual structure of virtue as they make the virtuous person into a passive spectator of situations (Annas 2003). They would propose a strategy of self-regulation (the process in which one controls one's behaviour on the basis of one's belief) in order to close the gap (between knowing and

Reconciling situational social psychology with virtue ethics

doing). With respect to this strategy, Besser-Jones (2007) identifies two main challenges of inter-goal conflict and goal imprecision, and recommends that what is required is to devise a clear moral theory that avoids the problems of these challenges, and which offers strategies for attaining self-regulation. Such a theory ought to incorporate practical judgement since: (1) it reminds one why it is important to do the right thing, especially in challenging situations (this avoids goal conflict); and (2) it derives a set of strategic rules for action, and a rough decision-making procedure that enables one to decide among tough cases (this avoids goal imprecision). Besser-Jones (2007) identifies the central components of such a moral theory: (1) it must be connected to an individual's psychology in such a way that the individual can understand, appreciate and identify with morality and its requirements; and (2) it must provide the agent with the resources to decide what to do in any given situation – knowledge of both the overall goal and objective of morality, and a general set of strategic guidelines. The first component points to a theory that incorporates virtue ethics, and the second points to a theory that comprises the regulative ideals of a natural law ethics. An Aristotelian–Thomistic moral theory, discussed below, addresses both these aspects. At this point, it is first useful to examine briefly the contributions of Elisabeth Anscombe and Alisdair MacIntyre in showing the importance of the psychological and sociological dimensions in building such a normative moral theory.

The revival of interest in virtue ethics was initiated by Elisabeth Anscombe (who initiated how virtue ethics was to be developed) and Alisdair MacIntyre (who showed how virtue ethics was instrumental in improving our understanding of moral philosophy); both scholars expressed dissatisfaction with the prevailing moral philosophies of deontology and utilitarianism, and advocated a virtue ethics approach which avoids the mistakes inherent in the other normative traditions. They both also emphasized the importance of

the psychology and sociology in relation to building such normative ethics. Anscombe (1958) criticizes modern moral philosophy (utilitarianism and deontological theories) on the basis that it neglects critical dimensions of morality such as character, virtue, motives, moral psychology (actions, intentions, emotions) and human flourishing which all reflect the psychological and sociological dimensions. This is not to be interpreted as a complete rejection of other normative traditions since, for example, there is a recognition of the importance of situations (circumstances and consequences): 'The circumstances can clearly make a great deal of difference in estimating the justice and injustice of such procedures as these; and those circumstances may sometimes include expected consequences' (Anscombe 1958, 10). MacIntyre (1984, Ch. 3) expounds that moral philosophy ought to presuppose a sociology (with a connection to the psychological dimensions) that reflects, explicitly or implicitly, a practical conceptual analysis of the relationship of an agent to his or her reasons, motives, intentions and actions; this generally presupposes some claim that these concepts are embodied in the social world. Specifically, MacIntyre (1984) proposes a historically informed teleological sociology, as to be human is to act reasonably or rationally in society; this involves identifying a good to be pursued and identifying the action most likely to secure the good under the concrete situation.

Of course, virtue ethics as a normative theory is not without its problems. For example, Pence (1993) points out two challenges to virtue ethics: (1) eliminativism (exclusion of principle-based approaches to ethics); and (2) essentialism (there is only one good way to live or one correct way for society to develop). Oakley and Cocking (2006) point out two related criticisms: (1) whether the notion of virtue is clear or detailed enough to serve as the basis of a criterion of rightness, and (2) virtue ethics focuses on the plausibility of a purely character-based criterion of rightness. Central to these challenges and

criticisms is the notion of regulative ideals. A regulative ideal is an internalized normative disposition to direct one's actions and alter one's motivation in certain ways (Oakley and Cocking 2006, 25). Emmet (1994) points out that regulative ideals are something that is essentially unrealizable (though, for some ideals, occasional realizability may be consistent with their regulative nature), and some of these ideals are by nature indefinable (axiomatic and self-evident). Regulative ideals have a central role in practice, guiding one's thoughts and actions; they may be specific to certain domains or general in scope.

The integration of virtue ethics with natural law ethics provides a more comprehensive understanding of their regulative ideals to help overcome the challenges and criticisms. Both Anscombe's and MacIntyre's views point to or are compatible with an Aristotelian–Thomistic natural law framework which facilitates this integration. MacIntyre has also significantly re-characterized his own standpoint, since his seminal work in subscribing to Thomistic Aristotelianism (Knight 1998). An Aristotelian–Thomistic natural law provides the basic moral codes for human conduct. It is grounded in three foundations: (1) ontological (human beings have ordered inclinations directed by reason); (2) eudaimonological (human flourishing or happiness); and (3) teleological (human actions are directed toward an ultimate goal). Two bases which form its regulative ideals of the exposition of this account of natural law are: (1) its precepts are those rules of reasons one obeys, characteristically without explicitly formulating them (axiomatic); and (2) human beings are social – one's own good can only be achieved in and through the achievement of the common good.

Four levels of the knowledge of natural law can be discerned: (1) the first moral principle; (2) common general principles or moral axioms; (3) reasoned conclusions; and (4) particular applications. The first principle, also known as the first principle of practical reasoning, can be stated in various ways: good is to be done and sought, and evil is to be avoided;

lead a life in accord with reason; seek your last end; act in accord with a well-formed conscience; act in accord with nature; act rationally, act in accord with virtue; act in accord with human dignity; act in a loving way; or realize your essential nature. It is precisely this first principle that connects virtue ethics with natural law through the virtues of: (1) practical judgement; and (2) justice (whose integral component is 'do good and avoid evil'). It is the practical judgement of the just person that functions in the application of the natural law which in turn provides for the education of one into the life of virtue (Hall 1990). For a more comprehensive discussion on an Aristotelian–Thomistic natural law, see Fagothey (1959), Finnis (1980), Grisez (1983), Higgins (1992), McLean (2000), Messner (1965), Rhonheimer (2000) and Rommen (1998).

Conclusion

Social psychologists share some of the same aims with virtue ethicists: to enhance and make ethical reflections more effective, to be aware of and avoid 'slippery slopes', to be wary when one's moral perceptions seem to clash with others, and to understand that it is difficult but possible to confront other people who are doing wrong (practical judgement would help greatly in such situations). They have cited a number of experiments to support the view that situational features are the major or sole factors in determining or explaining behaviour. However, the designs of the experiments fail to take into account some significant consequences and understanding of an Aristotelian conception of character traits and development and as such, the experiments do not show anything which necessitates a revision of the role of a virtue ethics perspective (Berges 2002). Doris (1998, 508) poses the question of whether the behavioural regularity we observe is to be primarily explained by reference to robust dispositional structures or situational regularity. While the determinative features of situations have been shown to have considerable and powerful effects on our behaviour, virtue-ethics

Reconciling situational social psychology with virtue ethics

characterological moral psychology does explain the observation of behaviour regularity. Virtues do not develop in a vacuum, but in concrete situations and circumstances. Situational regularity reinforces the development of the virtues so that they become second nature. Character dispositions that are not robust cannot reliably determine behaviour, but that does not rule out that robust traits, however rare, cannot determine behaviour. In designing experiments to study character traits, social psychologists ought to take into account the complex nature of character. Recently, there have been some attempts to develop scales or measures of virtue ethics (Chun 2005; Libby and Thome 2007; Sarros *et al.* 2006; Shanahan and Hyman 2003).

In promoting ethically upright behaviour, one not only needs to address the situational features through codes, rules, regulation and enforcement, but also internal characteristics through education and training, especially through the development of virtues. Ethical training can be effective, especially if it involves understanding the process and mechanisms underlying behaviour (Ross *et al.* 1975). For example, Samuels and Casebeer (2003) suggest that situationism can be used in ethical training to reinforce people's need for consistency between their attitudes and behaviours, or to establish organizational cultures in which ethical behaviour and development are more likely to occur. The results of contemporary organizational ethics are not very encouraging as credible evidence of more ethical individuals and institutions remains to be discovered (Garofalo 2003). While many ethical training programmes tend to focus on rules-oriented or legalistic formulations, what is required is a more unified approach that incorporates aspects of the normative traditions (including virtue ethics) with empirical findings from the situationists social psychology literature.

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Slippery When Wet: The Real Risk in Business

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Why is it that so many well respected corporate leaders and top executives cross moral boundaries apparently without fear of disastrous consequences for their actions, especially when the right thing to do seems readily apparent? This article addresses the perennial issue, “Why do good people do bad things?” using a theoretical framework, the Continuum of Compromise (CoC). The CoC demonstrates the potential for radical deterioration of sociomoral inhibitions and a perceived sense of permissibility for deviant conduct (captured by the metaphor “slippery slope”). Specifically, this article strengthens the theoretical framework of the CoC by integrating three attitude profiles (the virtuous, the ordinary unethical behavior, and the egoist). Factors that contribute toward the gradual decline down the slippery slope are presented and fall under two types of rationalization: (1) rotten apples (a person succumbs to the temptations inherent in the work environment), and (2) rotten barrel (the work environment provides many opportunities to learn and develop patterns of deviant behavior). We discuss three examples that illustrate how a company can be transformed from a virtuous, well-respected entity, with a strong organizational culture, to a slippery-slope demise with dramatic and disastrous consequences. A strong corporate culture is a powerful influence that can signal what is or is not acceptable behavior. Recent research results have revealed that it is the collective attitude or tone at the top that is the most critical factor in shaping organizational culture. The core values of a strong corporate culture guide its strategy and business decisions; therefore, it turns out that culture is the leading risk factor in shaping or compromising ethical behavior of individuals in companies. We present a correlation between culture and attitude profiles, as well as the upside and downside of cultural risk environmental factors.

Why Good People Do Bad Things— The Continuum of Compromise

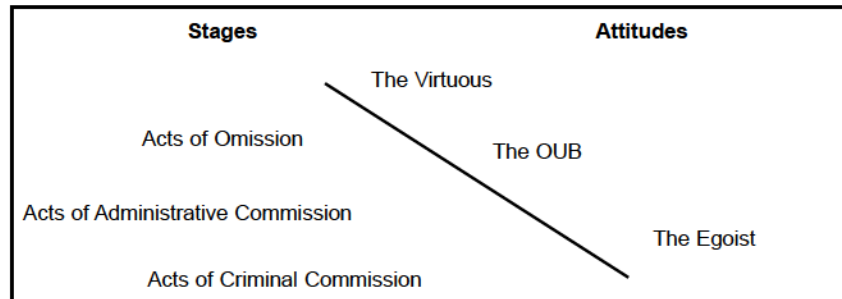
Recent studies on both sides of the Atlantic reveal that many people are currently unhappy with the ethical state of leaders in government and business. In spite of the current ethical state, many of us are still alarmed by unethical actions at major corporations, which include tax evasion, acting on insider information, lying, elaborate schemes that artificially inflate profits, and falsifying financial statements. On the one hand, why is it that so many well-respected corporate leaders and top executives cross moral boundaries, apparently without fear of disastrous consequences for their actions, especially when the right thing to do seems readily apparent? On the other hand, many of the actions of the majority of people who do not make headline news also cross moral boundaries: taking office stationary for personal use, accepting a gift from a client although it is against company policy, cutting corners to meet deadlines, lying to others, taking advantage of a customer's or client's ignorance, or turning a blind eye to a colleague's wrongdoings.

In effect, this article addresses the issue of why good people do bad things. As commonsense experience tells us, it is the small infractions that can lead to the larger ones. An organization that overlooks the small infractions of its employees creates a culture of acceptance that may lead to its own demise. This phenomenon is captured by the metaphor of the slippery slope. Many unethical acts occur without the conscience awareness of the person who engaged in the misconduct. Specifically, unethical behavior is most likely to follow the path of a slippery slope, defined as a gradual decline in which no one event makes one aware that he or she is acting unethically. The majority of unethical behaviors are unintentional and ordinary, thus affecting everyone and providing support for unethical behavior when people unconsciously lower the bar over time through small changes in their ethical behavior.¹

The Continuum of Compromise² (CoC) provides a plausible explanation of the slippery-slope phenomenon. It explains how over a period of time mild job frustrations develop into a pathological, materialistic attitude and behavior that leads to devastating consequences. This phenomenon is also known by the metaphors “the thin edge of the wedge” and “the camel's nose” (once a camel has managed to place its nose within a tent, the rest of the camel inevitably follows). The CoC reflects a framework that demonstrates the potential for radical deterioration of sociomoral inhibitions and a perceived sense of permissibility for deviant conduct. In other words, if something relatively harmless is allowed or accepted, it may lead to a downward trend that ends with the unthinkable. In

this article, we illustrate how the CoC provides a framework for understanding how the transition from a virtuous person to an egoist can occur. When combined with the corresponding attitude profiles, the CoC can be used as an analytical tool and a strategic framework for timely and proactive intervention in dealing with unethical conduct at the personal level. Figure 1 shows the CoC, which indicates three attitudes that characterize behaviors: the virtuous, the OUB (ordinary unethical behavior)³ and the egoist along with three complementary stages (acts of omission, acts of administrative commission, and acts of criminal commission) that make up the continuum.

Figure 1
The Continuum of Compromise



This first stage—acts of omission—is characterized by doing just enough to get by; occurs relatively easily (e.g., telling a so-called white lie, coming to work a few minutes late or leaving a few minutes early, leaving out some details on a report, not making follow-up phone calls for customer service, not showing appreciation for others' efforts, not verifying information on a purchase order, or not using initiative or contributing ideas to implement projects). Employees at this stage routinely begin to omit job responsibilities, show a decrease in productivity, and passively resist organizational mandates.

The slide to the second stage—acts of administrative commission—is also not a difficult one. At this stage, employees commit administrative infractions such as using company property (stationery, pens, staples, folders, computer diskettes, and so forth) for personal use, accepting small gifts against company policy, unreasonably using the computer and the telephone for personal matters, inappropriately using the company's expense account, or falsely claiming expenses on trips. The good news is that for most people, this second stage is the extent of their personal journey down the CoC. However, it is important to know that when these violations of company rules and codes of conduct are violated, trust erodes.

The move toward the final stage—acts of criminal commission—is also deceptively gradual and initially may not appear to be different from acts of administrative commission. At this stage, loyalty to others becomes more important than integrity, the rules no longer apply, a more short-term outlook is adopted, and there is an insatiable drive to acquire wealth as the only thing that matters. From acts of embellishing overtime or payroll records and claims for services not rendered, the person now falsifies records and statements, does “off-the-books” accounting, abuses one’s position and responsibilities, engages in insider trading, misrepresents earnings, turns in self-serving reports, and so forth.

At both extremes of the stages, we find attitudes of the virtuous and the egoist. Virtuous persons repeatedly demonstrate sound conduct that promotes and builds trust in the organization and are models of integrity. They show a capacity for making tough decisions, understanding events and people, and accepting their limitations. Virtuous people also understand the potential to go astray and make mistakes. When the matter requires it, they will know how to ask for subtle advice so that they can then arrive at a decision in which they take responsibility for their actions. Blind obedience to authority is not characteristic of the virtuous persons who would question directives they believe are unethical, morally questionable, or unreasonable. At the other extreme, we find the egoist. At this stage, many character flaws have taken root: disloyalty to the company, inability to keep promises, lack of empathy toward others, apathy about work, and greed to satisfy an insatiable drive for material comfort and well-being. Work becomes drudgery. The egoist is characterized by high-handed and arrogant behavior, obstinacy, opinionated vanity, and an unwillingness to correct errors, all signs of laxity, the inability to accept reversals or bear difficulties well, the fear of exertion, frequent complaints against setbacks and disappointments, and an exclusive search for material comfort.

The OUB may be thought of as the attitude that becomes the major part of the downward slope and leads further away from the virtuous life. It is a state of conscious and deliberate lack of zeal or fervor; a state of enduring and prolonged carelessness. OUB persons carry out their duties halfheartedly, lazily, and reluctantly while at the same time deliberately and shrewdly looking for some way of cutting down their duties. While isolated faults do not lead to OUB, its condition is always preceded by a series of small infractions characterized by carelessness—evident or expressed in the habitual neglect of little things, in lack of reflection or contrition for one’s past mistakes, in failure to have specific aims for personal improvement, and in unwillingness to struggle to overcome personal defects. Almost without noticing, OUB persons allow a self-satisfied mediocrity to creep in to all aspects of their lives. They are content with not going too far—of

staying just within the moral boundaries. They, however, become careless of both moral and legal minor infractions, and even consent to them without a struggle or resistance. Many OUB persons no longer put their hearts into their work and instead go through the motions of working out of routine or habit.

The OUB person can justify a halfhearted, easygoing, and undemanding attitude with all kinds of excuses related to efficiency, efficacy, expediency, personal health, empathy with others, and anything that will help them indulge in their small, disordered inclinations. Excuses help ease their pangs of conscience as they succumb to their whims, attachments, and comforts—self-described as subjective necessities. The course of the OUB is therefore brought about by means of repeated faults and omissions (failing to do what is right). Each fault weakens the will of OUB persons, and their resistance becomes weaker when they consent to it without struggle. They become increasingly sympathetic toward their own failings and love of comfort. One clear sign of OUB is the tendency to acquire more material comforts and create more needs in order to mitigate a sense of insecurity. In addition, in order to feel useful, OUB persons often engage in a plethora of activities that center around themselves, so motives that include personal reputation and approval from others become the focal point of their endeavors. As well as being devoid of strength to carry out their duties responsibly, they have a deep feeling of sadness and impoverishment. Table 1 summarizes the characteristics of the three attitudes.

Table 1—Attitudes and Characteristics Profiles

The Virtuous	The OUB	The Egoist
Builds trust, pro-organizational	Relatively good, attempts to stay out of trouble	Individualistic, opportunistic, self-serving
Accepts responsibility for actions	Devoid of strength to fulfill duties	Blames others for their wrongdoings
Consistently does what is right and not necessarily expedient	Repeatedly fails to do what is right	Materialistic outlook, driven by greed
Shows sincere concern for the well-being of others	Does not put effort into work	Does what is expedient and not necessarily what is right
Does not harbor resentment or speak ill of anyone	Tendency to take the easiest route	Unable to delay gratification

Wetting the Slope—Rationalizations

Initially, the lubricants that wet the slope come easily through:

1. scripts (rote behavior that replaces careful and active thinking and occurs when we encounter familiar situations);
2. desensitization (analogous to the metaphor or parable of the boiling frog: a frog that is dropped into boiling water will jump out, but a frog that is placed in cool water that is gradually heated, will unsuspectingly take no notice of the temperature change, only to be boiled);
3. distractions (not paying attention to small details that can result in ethical lapses);
4. moral exclusion (exclusion of people who are perceived to be at the periphery of the decision-making situation);
5. quid pro quo arrangements (putting oneself in a position to compromise one's integrity);
6. perceived victimization (some may feel that they are not appreciated or justly rewarded for their work, are not paid for overtime, are overlooked for promotion, are not consulted in an important decision even though they may be experts in that particular area, and experience favoritism);
7. fixation (focusing exclusively on a goal without regard for other important considerations);
8. sociocultural factors (a breakdown in values that make the social system tick and is symptomatic of the discontinuity in the value system and ethical commitments of key corporate stakeholders);
9. availability syndrome (corporate frauds occur where funds or resources are available and where conditions are conducive);
10. innate psychological imbalance (innate tendency to commit corporate frauds because of uncontrollable instincts; for example, a faulty ego or an underdeveloped conscience where the individual does not learn from experience, does not handle frustrations and insecurity, feels no remorse for wrongdoing, and has an inadequate perception of social reality that may predispose the person to acts of corporate frauds);⁴ and
11. other factors (no vision or ambition, laziness, pride, irresponsibility).

Despite these early warning signals, the person enters into the first stage of the continuum by rationalizing or justifying behavior. Rationalizations fall into either one of two categories⁵—first, the rotten-apples argument in which a person

Slippery When Wet:
The Real Risk in Business

succumbs to the temptations inherent in the work environment, and second, the rotten-barrel argument in which the work environment provides many opportunities to learn and develop patterns of corrupt behavior (see Table 2).

Table 2—Rationalizations

Rotten-Apple Arguments	Rotten-Barrel Arguments
If I did not do it, the company would have gotten someone else to do it.	Everybody else does it.
It is in my best interest.	If we do not do it, some other company will.
It is safe, no one will ever find out.	That is the way business has always been conducted.
I have no choice, although it goes against my beliefs.	It is necessary to take advantage of the opportunity.
I was just a cog in a big machine.	Performance and profits are what count, no matter what the cost.
I was not really involved.	Ethics and good business practice are separate.
No one will get hurt.	It is in the company's best interest.
It is me against them.	Profit is the only good.
The company owes it to me.	We will wait until our lawyers tell us it is wrong.
I have worked hard; I have it coming.	The playing field is not level.
I deserve it at my level in the company.	We have to keep up with the competition.
It is simply part of my job.	It is for a good cause.
I was only doing my job.	It is within reasonable legal limits.
Life is too short to worry about small things.	The company or my boss made me do it. I was told to do so.
It will not bankrupt the company.	If we cannot beat them, we will join them.
If it helps the company, the company will condone it.	We are just fighting fire with fire.
It is OK if I do not gain personally.	When in Rome, do as the Romans do.
It was only a "white" lie.	It is not our problem or our responsibility.
My boss does it.	It is not part of our business function.
There are worse things.	Some other organization will probably help.
It was not my fault; the suppliers made an error.	The code did not explicitly prohibit it.
	You have to take the front, before the front takes you.

Examples of the Slippery Slope

In this section, we present three examples⁶ to illustrate how a company goes from being a virtuous, well-respected entity to its demise—with dramatic and disastrous consequences. The transformation can take place over a number of years (the Andersen story), in a matter of weeks (Barings), or even in days (Martha Stewart). The examples reflect not only a lack of internal checks and balances, poor supervision of employees, and the lack of a clear reporting line but also graphically demonstrate the effects of the rotten-apple and rotten-barrel culture.

The Andersen Story: Profits Versus Ethics

The Andersen case is a classic example of the slippery slope of unethical practices that triggered the indictment and collapse of this legendary accounting firm. A young Arthur Andersen, twenty-eight years of age, refused to approve the books of a railway company whose executive had threatened him with a loss of business. Arthur Andersen stuck to his decision and came to be known as a firm one could trust where integrity mattered more than business fees. Andersen is reported to have been instrumental in restoring the trust of U.S. investors in companies based on its integrity and high professional values, especially during the depression of the late 1920s. Andersen stressed ethical values, insisted on honest accounting, and tried to eliminate conflicts of interest. Andersen developed its own set of business standards, which created the concept of “one firm.” This concept ensured that all Arthur Andersen’s clients received the same quality of work and highly trained professionals, regardless of where the firm conducted business. By the early 1950s, the culture of ethics and integrity was so widely recognized that the firm was elected to the Ohio State University Accounting Hall of Fame in 1953.

What initiated the slippery-slide was the conflict of culture standards between the firm’s consulting arm (which generated increasing profits) and its auditing business. Unfortunately, consulting fees and profits were gradually put ahead of integrity and trust. From acts of administrative omission and commission (foregoing training sessions for new consultants, rewards for delayed projects, padding prices, and doubling estimates for consulting), the company moved unwittingly to acts of criminal commission (in early 2002, Andersen was indicted on federal charges of knowingly, intentionally, and corruptly persuading employees to destroy documents to keep them out of regulatory proceedings). Although on June 1, 2005, the U.S. Supreme Court overturned Anderson’s conviction for

destroying documents related to its Enron account (apparently not based on guilt or innocence but based on a technicality in the judge's instruction to the jury that the destruction of documents in and of itself can be a reasonable and innocuous act), the results of the demise of the firm were disastrous as eighty-five thousand employees lost their jobs.

Baring It All: Turning a Blind Eye

The second example of a slippery slope is the collapse of Barings, Britain's oldest merchant bank, which went from apparent strength to bankruptcy in February 1995. This highly regarded bank, in existence for 233 years, had financed the Napoleonic wars, the Louisiana Purchase, and the Erie Canal. A twenty-eight-year-old trader, Nick Leeson, ran up more than \$1.3 billion of liabilities through unauthorized trading—more than the bank's entire capital of \$900 million. Barings allowed Leeson to remain as chief trader while leaving him responsible for settling his trades, in spite of a 1993 internal memo warning the London headquarters about allowing Leeson to be both trader and settlement officer, jobs that understandably should be separate. The bank's turning a blind eye allowed Leeson to hide his personal mounting losses more easily.⁷ Over a three-month period, Leeson had bought more than twenty thousand future contracts worth about \$180,000 each. These losses were hidden in an error account—apparently created to cover a mistake made by an inexperienced team member and that had led to a loss of \$20,000. By December 1994, debt hidden in this error account amounted to \$512 million. Barings believed that it was not exposed to any losses because Leeson claimed that he was executing purchase orders on behalf of a client, even though in January 1995, the Singapore Monetary Exchange (SIMEX) expressed concern about Leeson's dealings. The bank, however, still wired him \$1 billion to continue his trading. Leeson pleaded guilty to forging documents and two counts of deceiving and cheating SIMEX. A report into the collapse by Singapore authorities, expressed disbelief that executives at Barings, who were all consequently forced to resign or were fired, were not aware of the error account. Not only did the bank's twelve hundred employees lose their jobs, but investors' savings were wiped out.

Martha, Martha: Turning a \$200k Gain into a \$300m Loss

On October 31, 2001, Imclone Systems requested the government to review Erbitux, the company's new cancer drug. Imclone founder, Samuel D. Waksal, was tipped on December 26, 2001, that the government would reject Erbitux's application. Waksal then alerted his daughter Alisa to sell her Imclone stocks

and attempted to sell his own shares worth millions of dollars. On December 27, 2001, Martha Stewart, Chairperson and CEO of Martha Stewart Living Omnimedia Inc., sold 3,928 shares of Imclone at about \$58.43 per share for a total of \$228,000. The following day, the U.S. Food and Drug Administration made public the negative ruling about Erbitux, and, on December 31, 2001, the first trading day after the news about the negative ruling, Imclone's stock fell 18 percent. On January 7, 2002, Peter Bacanovic, former broker at Merrill Lynch, reportedly said that he and Stewart had agreed on December 20, 2001, to sell Imclone stocks if it fell below \$60. On February 4, 2002, Stewart gave the same account to the Securities and Exchange Commission, Federal prosecutors, and the FBI. Both were indicted on June 4, 2003, and both pleaded innocent. However, Stewart was charged with conspiracy, obstruction of justice, and lying.

The prosecutors charged that Stewart sold 3,928 shares of Imclone on December 27, 2001, a day before the negative ruling on Imclone's application for an experimental cancer drug, because she was tipped off by her friend and Imclone founder, Samuel Waksal. Douglas Faneuil, former assistant to Bacanovic at Merrill Lynch, told investigators that Bacanovic ordered him to tell Stewart that Waksal was selling his shares. He also testified that Bacanovic, without explicitly asking him to lie, repeatedly pressured him to back up the assertion that Stewart and Bacanovic had decided in early December 2001 to sell Imclone shares if the stock fell below \$60. Faneuil was subsequently fired from Merrill Lynch after pleading guilty to taking a payoff to keep his mouth shut about Stewart's stock trading.

Prosecutors said there was ample evidence of Stewart's guilt, including testimony that her next call after selling her stock was to the office of Imclone CEO, Samuel Waksal. They also alleged that Bacanovic and Stewart communicated to concoct a cover story to hide the reason for her stock sale. Records included e-mail messages from Stewart's laptop computer and telephone records from her company, Martha Stewart Living Omnimedia Inc. Investigators noted that a major problem was the number of pages that had information blacked out. Stewart allegedly opened a phone log in her office assistant's computer, temporarily changing a potentially incriminating message from her broker, Bacanovic. These allegations reveal Stewart's intentions to cover her tracks and to lie to investigators.

On March 5, 2004, the U.S. District Court convicted Martha Stewart of lying to Federal investigators about her sale of 3,928 shares of Imclone System stock on December 27, 2001. She was sentenced in July 2004 to five months in prison and five months of house arrest—the minimum penalty under U.S. Federal guidelines—and was also fined \$30,000 and given two years of supervised probation.

Waksal also pleaded guilty to six criminal counts in the Imclone scandal including securities fraud, bank fraud, conspiracy to obstruct justice, and perjury.

Because the investigations into Stewart's sale of Imclone, which netted \$228,000 became public by June 2003, she saw her 30 million shares of Martha Stewart Living Omnimedia lose more than \$286.6 million or over 50 percent of its value. In 1999, share prices of the company closed at over \$35 and by March 2004 fell to just under \$11. There was also a bigger than expected loss of \$20 million for the first quarter of 2004. On October 2, Stewart resigned from the board of the New York Stock Exchange. On June 4, 2003, Stewart resigned as chairperson and CEO of her company. In 2003, advertising pages for her company's flagship magazine, Martha Stewart Living, were down 35 percent. Traffic at the company's website declined to 1.12 million visitors in January 2004 from 1.54 million in 2002. In March 2004, WCBC in New York announced that it would cease airing Stewart's show after it had been moved to less desirable time slots and viewership had declined. Martha Stewart was released from prison in March 2005.

Moving up the Slope: Organizational Culture

Because corporate reputation and the value of that reputation have become more critical in light of the recent business scandals, companies are now focusing on building strong ethical cultures. The tone at the top has been the most critical factor in shaping organizational culture. In cultures that are in trouble, strong egos lead to fear, blame, power, and an overall environment that is characterized by a lack of trust. Strong and effective cultures are characterized by decisions based on integrity (that is, the core values are the shared values), respect and value for employees, as well as open and authentic communication that encourages constructive and critical feedback among all levels. There is a clear, positive correlation between the egoist attitude and troubled organizations and the virtuous attitude and aspirational-benchmark cultures as demonstrated in Table 3.

Table 3—Culture and Attitudes

Cultures in Trouble	Characteristics of the Egoist	Strong Culture	Characteristics of the Virtuous
Strong ego leads to information hoarding and empire building	Individualistic, opportunistic, self-serving	Values the importance of people	Shows sincere concern for the well-being of others
Blames others for their wrongdoings	Lack of trust reflected through values such as fear, blame, power	Builds trust, pro-organizational	Decisions based on integrity
Appearance more important than substance	Does what is expedient and not necessarily what is right	Has a widely shared philosophy	Consistently does what is right and not necessarily expedient
		Has open and authentic communication	Accepts responsibility for their actions

The DNA of a corporate culture is considered to be the social life of the organization, which comprises collective values and behaviors. Simply stated, it is the way things are done. A strong corporate culture is a powerful influence that can signal what is or is not acceptable behavior. It can therefore put pressure on an employee to do what is right or encourage an employee to do what is wrong. In strong cultures, the guiding values are communicated more visibly. The core values of a strong corporate culture guide its strategy and business decisions; therefore, culture is the leading factor both in shaping or in compromising individual ethical behavior. Table 4 compares the upside and downside of cultural risk factors. A company’s guiding values are shaped by the collective tone at the top and flow down through the organization to all levels. It is therefore important to understand the organizational culture in order to develop or strengthen the ethical culture so as to better align shared values and core guiding values. Many boards are now taking direct responsibility for building organizational culture. Corporate performance ultimately depends on the consistent application of core values and principles in order to build trust and strengthen relationships.

**Table 4—Cultural Risk Environmental Factors:
Upside Versus Downside**

Upside: Effective Corporate Culture	Downside: Ineffective Corporate Culture
Monitors and targets activities that pose the greatest potential risk	Employees are afraid to raise issues or challenge management
Has open lines of communication	Management does not listen to employees
Reduces the risk of exposure along with the resulting legal costs and loss of reputation or brand	Leaders may hesitate to participate because of inadequate training, fear, or blame
Puts mechanisms in place to provide early warnings of deviations	May lessen focus on legal compliance
Creates or expands a culture of trust, enthusiasm, and integrity	Inclusion of ethics may be seen as superfluous
Encourages different and opposing opinions	Failure to integrate ethics may be a lost opportunity
	May lose the capacity to anticipate changes
	Much time and energy spent on corporate politics to solidify one's position to advance
	Monitors only those areas that are easiest to review rather than concentrating on those areas representing significant risk

Recommendations

While it appears that there are a relatively small percentage of people who can be described as truly virtuous, what really puts us at risk, especially in morally dangerous situations, is our overconfidence or distortion in judgment of our ability to always do the right thing at the right time in the right way. At the level of the organizational environment, it is important to build a culture of integrity and accountability through (1) incentives (rewards for ethical behavior and consistent enforcement of appropriate disciplinary mechanisms for ethical violations), (2) systems to ensure the right ethical attitudes at the top and board involvement in ethics and compliance programs, and (3) attention to the cultural dynamics that adhere to overarching principles, including principles-driven codes.

In particular, organizations can facilitate ethical behavior through ethical briefs for executives, whistle-blowing mechanisms for anonymous reporting, assistance and procedures for airing grievances, and ethics training in applying virtues to concrete situations. At the individual level,⁸ employees, managers, and executives can (1) emulate the behavior of moral exemplars, (2) seek advice from someone who has consistently demonstrated good practical wisdom or judgment, (3) avoid morally dangerous situations and seek situations conducive to ethically desirable conduct, (4) if possible, avoid high-pressure decision situations or decisions in situations where one can deliberate and reflect on personal and corporate values, and (5) actively engage in moral reflection and imagination to ensure “accurate calibration of their moral compass or conscience” (in the final analysis, the level of morality in business lies in the formation of the individual’s conscience). Ethical behavior depends on the individual’s ability to recognize ethical issues and dilemmas, which is both a function of the organizational culture and of the individual’s stable character traits and dispositions.

Notes

1. F. Gino and M. Bazerman, “Slippery Slopes and Misconduct: The Effect of Gradual Degradation on the Failure to Notice Unethical Behavior,” working paper #06-017, Harvard Business School, August 2005, http://papers.ssm.com/sol3/papers.cfm?abstract_id=785987.
2. K. Gilmartin and J. Harris, “Law Enforcement Ethics ... The Ethics of Compromise,” *Police Chief Magazine* (January 1998).
3. The Ordinary Unethical Behavior (OUB) is coined from Gino and Bazerman (2005).
4. The factors given in (8), (9), and (10) are brief overviews of some key behavioral-linked perspectives in understanding and managing corporate frauds; current behavioral analyses point to a combination of personal, cultural, situational, and experiential factors according to Akin-Ogundeji, O., “Understanding Corporate Frauds: A Psychologist’s Perspective,” *EthicsWorld*, January 4, 2007.
5. There is also a third category of rationalizations that can be called the “rotten core” argument that reflects the general business environment. The market has shown itself to be an important behavioral modification factor, as there appears to be a positive correlation between unethical behavior and the rise in market indexes.

Slippery When Wet:
The Real Risk in Business

6. Sources for the examples are (1) B. Toffler and J. Reingold, *Financial Accounting: Ambition, Greed and the Fall of Arthur Andersen* (New York: Random House Inc., 2004), (2) www.bbc.co.uk/crime/caseclosed/ricklesson.shtml, and (3) www.baltimoresun.com/features.
7. Rogue traders seem to be more susceptible to falling into a crazy web of deceit, covering up losses while losing, and getting more in a desperate effort to recoup debts, driven by a poisonous cocktail of ambition and fear. Leeson is quoted to have said "... it had started off so small, but had rapidly seized hold and was now all across me like a cancer" (<http://business.guardian.co.uk/story/0,3604,818620.00.html>). Other examples of rogue traders and their losses to companies are Peter Young of Morgan Grenfell (\$600m), Toshihide Iguchi of Daiwa Bank (\$1.1b), and John Rusnak of Allfirst Bank (\$691m).
8. J. Doris, "Persons, Situations, and Virtue Ethics," *Nous* 33, no. 4 (1998): 517.



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Contents

Mark R. Dibben

Editorial: Humbug, *Ba* and Human Experience 1

Silja Graupe and Ikujiro Nonaka

***Ba*: Introducing Processual Spatial Thinking into the Theory of the Firm and Management** 7

Mary Brown

Revisiting Organisational Personality: Organisations as Functional and Metaphysical Entities 31

Surendra Arjoon

An Aristotelian–Thomistic Approach to Management Practice 47

Eugene Schlossberger

Supervision and the Logic of Resentment 65

Philip A. Woods and Glenys J. Woods

The Geography of Reflective Leadership: The Inner Life of Democratic Learning Communities 81

Daniel R. Gilbert

Living in a Managed World 99

An Aristotelian–Thomistic Approach to Management Practice

Surendra Arjoon

Every academic endeavour rests ultimately on a particular assumption of human nature. Two views of human nature are compared and contrasted: (1) a utilitarian naturalistic humanism which holds essentially the view that human nature is materialistic, and (2) an Aristotelian–Thomistic natural law/virtue ethics humanism which holds the view that human nature is both materialistic and spiritualistic. This paper argues that the latter view better captures and explains the metaphysical realities of human nature. In addition, the role of virtues and its applications in management practice are presented. Organisational policy mechanisms and managerial implications will depend on which view of human nature one adopts. The failure to integrate the virtues and natural law ethical principles into management practice threatens the stability and survival of the firm since they are required to correct the dysfunctional aspects and ethical deficits of the current business philosophy.

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Utilitarian Naturalistic Humanism vs. Aristotelian–Thomistic Natural Law Humanism

Ultimately, every science and every discipline, as well as every evaluation of human action has its roots in some philosophical basis, which itself ultimately depends on the view of human nature it proposes or specifies. For example, from the late 17th century to the 18th century, some British philosophers (for example, Adam Smith and David Hume) thought that the perception of morality stemmed from a special faculty called the moral instinct or moral intuition; this perception reduces morality to feelings. Others proposed that biolog-

ical, physiological, psychological or sociological forces determined human action: people do what they do, not through a reasoned control of their actions, but because they are driven by the physical and chemical forces in their subconscious minds or by the strong pressures of socio-economic forces. For example, situation ethics proposes that situational features (pressure, degree of hurry, obedience to authority, group effect, and so on) determine behaviour which is defined as an assembly of stimulus-response relationships.

Essentially, human nature refers to the characteristic principles, properties, and ends which serve to distinguish human beings from animals, inanimate objects, and social abstractions such as society or organisations. For example, in distinguishing between humans and animals, specific characteristics of the former includes: proneness to error, possession of a social and transcendental nature, the ability to be proactive (as opposed to animals who react based on stimulus-response), awareness of impulses and feeding instinct, the ability to reason (can grasp the connection between impulses and rational purpose), and the ability to go against one's instincts (for example, against self-preservation). Human nature can be viewed as a set of pan-human needs and drives, predispositions, tendencies, and actual behaviours common to humans¹. The various notions of human nature differ on the basis on what specifically these pan-human needs are.

Western business philosophy is informed by the concept of human nature in its utilitarian anthropological belief that human actions are driven by self-interest². The causes of the recent and ongoing business scandals reflect, in part, the prevailing utilitarian practice of management and business that appeals to self-interest and encourages excessive risk-taking in focusing on short-term results. If business theory and practice are to be grounded in a sound and complete anthropology which can be accepted within a pluralistic and post-modern context, Moreno-Riaño argues that traditional natural law offers a more complete notion of humanity and existence since it facilitates human dignity by fostering personal virtue and responsibility, economic development, corporate responsibility, and human community within a moral context³. Though the utilitarian anthropology drives contemporary western business, like its natural law counterpart, it implicitly agrees on the universality of human nature as well as of human agency and freedom; the former only considers the dimension of 'self' as primary, with the 'other' being at best a tertiary consideration⁴. Given the global financial crisis and consequences, it is perhaps timely to reconsider the anthropological foundation of business. In order to take into account the fundamental role of human nature in understanding the difficulties and challenges encountered by management, two views of human nature are explored: (1) a utilitarian naturalistic humanism which holds

1 J Sullivan 'Human Nature, Organizations and Management *Theory*' *Academy of Management Review* 11 no 3 (1986) pp 534-549

2 There is distinction between the notion of 'self-interest' with respect to egoism and utilitarianism: the former ordinarily means what people ought to do in their self-interest, while the latter takes into consideration the interests of others in arriving at a decision.

3 G Moreno-Riaño 'Natural Law and Modern Economic Theory' *Journal of Markets & Morality* 8 no 2 (2005) pp 387-413

4 Ibid

essentially the view that human nature is materialistic, and (2) an Aristotelian-Thomistic natural law/virtue ethics humanism which holds the view that human nature is both materialistic and spiritualistic.

Davis points out that the concept of humanism has a complex history and an unusually wide range of possible meanings and contexts⁵. The term 'humanism' is the name given to the intellectual, literary, and scientific movement of the fourteenth to the sixteenth centuries, and was originally based on the literature and culture of the classical antiquity of Greek and Roman cultures⁶; the term came into general use only in the nineteenth century. The modern use of the term developed from attempts to distinguish the movement from the classics to a more scientific understanding. Contemporary humanism attributes crucial importance to education, integrates science with poetry and culture into democracy, champions freedom of thought and opinion, and fosters the use of intelligence and pragmatic research in science and technology⁷. This paper takes a broader view of humanism that incorporates a system of thinking which considers the experience and the holistic development (materially, culturally, spiritually, scientifically, speculatively, etc.) of the human person toward the goal of human well-being and ultimate human flourishing.

The term 'naturalistic' suggests a self-sufficient (self-existent, self-explanatory, and self-operational) world-view in which the natural world can be completely understood in scientific terms without having any recourse to any spiritual or supernatural explanation. 'Naturalism' entails a two-fold view that everything is composed of natural entities, and that acceptable methods of justification and explanation are commensurable with those in science; with respect to morality, naturalism holds that moral properties are equivalent to or at least determined by certain natural properties so that moral judgments either form a subclass of, or at least are determined by factual or descriptive judgments⁸. Vaughn and Dacey also note that naturalistic moral theories can be reduced to or be defined in terms of natural phenomena, that is, people can know moral facts in the same way that a scientist can know empirical facts. For example, 'morally right' can be equated with the empirical phenomenon such as 'producing more pleasure than pain' or that being moral means meeting certain common needs⁹. Further, these authors argue that utilitarianism can be considered a naturalistic moral theory.

Woznicki notes that the very essence of humanism consists in finding human dignity which may be sought either in an immanent or in a transcendent order of human nature; the former is aligned to a naturalistic form of humanism, and the latter to a spiritualistic one¹⁰. A utilitarian naturalistic humanism corresponds to an anthropocentric or

5 T Davis *Humanism* London, Routledge 1997

6 *Standard Dictionary of the English Language (International Edition)* New York, Funk & Wagnalls 1974

7 R Audi (General Editor) *The Cambridge Dictionary of Philosophy* Cambridge, Cambridge University Press 1995

8 *Ibid*

9 L Vaughn & A Dacey *The Case of Humanism* Maryland, Rowman & Littlefield 2003

10 A Woznicki *The Dignity of Man as Person: Essays on the Christian Humanism of His Holiness John Paul San Francisco, Society of Christ* 1987

immanentistic (human-centred) view of human nature; the natural law humanism corresponds to a spiritualistic or theocentric¹¹ (God-centred) attitude in understanding human nature. The former concept of human nature is based on the naturalistic ideas that: (1) the purpose of the homo sapiens is wholly bound by their life span (there is no life after death as epitomised by the cliché: eat, drink, and be merry, for tomorrow we die), and (2) a belief in the exclusive existence of reality is accessible only to experience. The natural law/virtue ethics humanism, on the other hand, holds the view that the human soul is spiritual, self-contained and immortal; the body is material in substance, the soul spiritual, and neither can be derived from the other. Both body and soul constitute human nature as an essential unity. The human person, though physically close to the animal world, constitutes a single species and is endowed with the power or faculties of reasoning and self-determination. This view of human nature is also contrary to the view expressed by the social intuitionist model which posits that intuitions are the primary source of moral judgments and conscious deliberations play little causal role as they are used mostly to construct post hoc justifications for judgments that have already occurred¹². However, Pizarro and Bloom argue that there is considerable evidence that people actively engage in reasoning when faced with real-world moral dilemmas; the findings limit the strong claims of the social intuitionist model concerning the irrelevance of conscious deliberation¹³.

Aristotelian–Thomistic Natural Law/Virtue Ethics Humanism

A major theme in contemporary discussions of ethics is the dissatisfaction with the condition of moral theories which are not able to provide a plausible account of the rich diversity of moral life. Today, scepticism about one's ability to know anything for certain suffuses our culture of relativism and subjectivism, with the morally unhealthy personal and public consequences which follow from such beliefs. This has sparked a renewed interest in Aristotelian-Thomistic moral theory of natural law and virtue ethics which was initiated by Elizabeth Anscombe¹⁴ and Alisdair MacIntyre¹⁵. Both expressed dissatisfaction with the prevailing moral philosophies which neglected concepts such as virtue and practical reason, and did not take into account all the facets of human existence with quite the same appreciation of both the particular circumstances of a person's actions and the abiding truths of one's destiny or end. This natural law tradition originated in the late Roman Republic

11 Natural law humanism subscribes to the notion of a 'Christian' God who is considered to be the 'fullness of being' and the last 'end' to which all human actions are ordained. Natural law is considered to be the participation of rational creatures in the 'eternal law' which reflects God's plan for the universe.

12 J Haidt 'The Emotional Dog and its Rational Tail' *Psychological Review* 108 (2001) pp 814–834

13 D Pizarro and P Bloom 'The Intelligence of the Moral Intuitions: Comment on Haidt (2001)' *Psychological Review* 110 no 1 (2003) pp 193–196

14 G E M Anscombe 'Modern Moral Philosophy' *Philosophy* 33 no 124 (1958) pp 1–19

15 A MacIntyre *After Virtue* Notre Dame IN, Notre Dame Press 1984

whose thinkers attempted to evaluate institutions according to what is natural, as opposed to mere conventions. This concept of 'natural' in the traditional account distinguishes it from Aristotelianism which viewed barbarians, slaves, and women as naturally incapable of independent moral judgment; the traditional account, on the other hand, insisted that all mature, normal human beings are equal in their fundamental capacities for moral virtue, and that institutions of domination structuring society are therefore unnatural¹⁶. A person's nature is itself a guide to right and wrong – that is the fundamental tenet of natural law (it is called 'natural' since it is promulgated to a person through his or her nature). Aristotle's¹⁷ *Nicomachean Ethics* analyses the role of moral agency, reason (speculative reason with its end or telos of 'truth' and practical reason with its goal of 'good') and other virtues along with first principles of morality (natural law). Aquinas¹⁸ in his *Summa Theologica* develops further insights on the work of Aristotle whose association with natural law is due largely to the interpretation given to his work by Aquinas. In the Aristotelian-Thomistic tradition, natural law can be defined as the set of rational laws which regulates human actions with a view toward the end of that person. It can be described as those universally binding moral principles that can be discerned by human reason.

Two broad concepts in the development of natural law can be discerned: an individualistic and a metaphysical. The former concept of natural law stresses individual traits, the separation of eternal law (the law by which God governs the universe) from the natural law and the autonomy of human reason (in other words, the State is viewed as juridically omnipotent and is the source or ultimate authority of right and wrong). The latter, rooted in the belief in God and that some moral norms of right and wrong are exceptional-less, is contrasted with human positive laws (this ought not to imply a separation of legality from morality, but it advocates such a thing as unjust laws), and is of the view that there are obligations and sanctions for obeying or transgressing the eternal law. This has led to different notions of natural law: proponents of the former include Thomas Hobbes (1588-1678), Hugo Grotius (1583-1645), John Locke (1632-1704), and Samuel von Pufendorf (1632-1694) who all incorporated natural law into the political thought of the Enlightenment as the basis for the emergent doctrine of universal human rights ; those of the latter include Thomas Aquinas (1225-1274) who provided one of the most complete influential accounts of traditional natural law, Robert Bellarmine (1542-1621), Francisco Suarez (1548-1617), Gabriel Vasquez (1549-1604), and Francesco Vittoria (1483-1546). Messner¹⁹ (1965) identifies three main schools of natural law theory that have emerged in the course of history and which have a common element of basing their theories on what is 'in accordance with nature'; the differences stem from their conceptions of what constitutes 'nature': (1) traditional whose foundation consists in one's awareness of self-evident truths with its claim to binding force,

16 R McBrien (General Editor) *Encyclopedia of Catholicism* San Francisco, Harper Collins 1995

17 Aristotle *Nicomachean Ethics* (translated by M Oswall) Englewood Cliff, NJ, Prentice Hall 1962

18 T Aquinas *Summa Theologica Vol. II* Notre Dame IN, Ave Maria Press 1981

19 J Messner *Social Ethics: Natural Law in the Western World* (translated by J Doherty) St. Louis, B. Herder Book Co 1965

and one's awareness of one's nature with its claim on the social order to provide for fully integrated human existence, (2) idealistic which seeks to understand legal reality only in terms of the mind and its world of ideas, and (3) materialistic which views all order in the world as the order of the material universe. This paper focuses on the Aristotelian-Thomistic account which is derived from the traditional view of natural law.

Four levels in the knowledge of the traditional natural law can be distinguished: (1) the first moral principle, (2) common general principles or moral axioms, (3) reasoned conclusions, and (4) particular applications. The first principle can be stated in various ways: do good and avoid evil, lead a life in accord with reason, seek your last end, act in accord with a well-formed conscience, act in accord with nature, act rationally, act in accord with virtue, act in accord with human dignity, act in a loving way, and realise your essential nature. The first principle, also known as the first principle of practical reasoning, is considered to be a primary truth which cannot be invincibly unknown to anyone who has the use of reason. It is not a moral norm, but it expresses the intrinsic, necessary connection between human goods and actions which bear upon them. The common or general principles are based on the first principle and are expressed as a person's natural inclinations to: preserve one's being (as reflected in the desire to exist, love of health, right to self-defence, respect for human life and goods, advances in health care and medicine, etc.), yearn for the good (as reflected in treating others with fairness, respecting the property of others, refraining from theft and fraud, upholding justice in all one's relationships, etc. – these principles are the foundation of rights and duties), procreate (as reflected in the desire to sustain the human-race, to care for one's offspring, for conjugal union of man and woman toward the generation and education of their offspring, etc.), yearn for the truth (as reflected in the desire to be truthful, to adore God, etc.), and live in societies (as reflected in the desire to work, to foster the development of political societies and other types of associations which stem from a person's social nature, communicate as an expression of human sociability, develop knowledge of the different forms of art and culture, etc.).

From these common principles, one can identify directly evident precepts: preserve moderation (temperance), act in a way befitting human dignity, do not do to others what you do not wish them to do to you (the 'golden rule'), render to each one's own (justice), do not repay good with evil (gratitude), keep your pledged word (fidelity), etc. Directly evident precepts mean that one recognises them as intrinsically certain and therefore universally valid as soon as the meaning of their underlying concepts is grasped by experience; they are obligatory (absolutely and without exception) insofar as they signify a claim on one's self-determination. Widespread ignorance of the general principles of morality would be disastrous to the human-race as it would make moral life and living in society unliveable. The remote or reasoned conclusions, sometimes referred to as tertiary precepts, are derived from a complicated process of reasoning from the common general principles. These tertiary precepts can be invincibly unknown even by intelligent persons (this makes the scientific study of ethics very important); ignorance of these remote conclusions is not as devastating as ignorance of the common principles.

Finally, in the applications of the principles and precepts of natural law in concrete cases, normal mature persons may err. The resulting misjudgements do not mean that decision-makers do not know the principles themselves, but only that they are inexperienced in applying them to practice. The natural law is found in all people since they all recognise the force of the first principle, however, the derived precepts of natural law may not be recognised by all because of ignorance, intellectual pride or passion. For a comprehensive review of Aristotelian-Thomistic natural law and its applications see Messner²⁰, Higgins²¹, Rommen²², Fagothey²³, McLean²⁴, and Rhonheimer²⁵.

The principles of natural law humanism provide the foundation of the social principles that promote human dignity, specifically, the principles of the common good, subsidiarity, solidarity, universal destination of goods, participation, and stewardship²⁶. These principles have a profoundly moral character and significance since: (1) they provide the criteria for the discernment and orientation of social interactions, (2) they refer to the ultimate and organisational foundations of social interactions, and (3) they are based on the social nature of the human person, they allow one to find fulfilment from the realisation that one exists with others and for others. The principle of the common good stems from the dignity, unity and equality of all people and reflects the social conditions which allow each and every person to fulfil his or her goal of human flourishing (materially, spiritually, culturally, etc.). It is not to be understood as consisting in the simple sum of individual goods or to reductionist views that allow some to take material advantage of their position or power (as fostered in a utilitarian naturalistic humanism), but leads to the conclusion that each person or economic entity needs to assume a greater responsibility to attain the common good, to increase it, and to safeguard its effectiveness (which is why it is called 'common'). The principle of subsidiarity asserts that it is wrong to take from individuals, groups, and communities what they can accomplish by their own initiative and enterprise, and assign it to a higher-level body or authority. Also known as the principle of 'self-help', it is one of the best forms of social organisation that promotes organisational effectiveness. It protects individuals from abuse and exploitation from higher-level management authorities, and at the same time, it helps individuals to fulfil their responsibilities and realise their potential thereby contributing to their own well-being and that of others (that is, the common good). As an illustration of the violation of this principle, many of the reforms proposed by the United States Congress and the Department of the Treasury represent misguided attempts to assert federal control over areas that have been traditionally and successfully governed

20 Messner op cit

21 T Higgins *Man as Man: The Science and Art of Ethics (Revised Edition)* Illinois, Tan Books and Publishers 1992

22 H Rommen *The Natural Law* Indiana, Liberty Fund 1998

23 A Fagothey *Right and Reason: Ethics in the Theory and Practice based on the Teachings of Aristotle and St Thomas Aquinas* Illinois, Tan Books and Publishers 2000

24 E McLean (Editor) *Common Truths: New Perspectives on Natural Law* Delaware, ISI Books 2000

25 M Rhonheimer *Natural Law and Practical Reason: A Thomist View of Moral Autonomy* New York, Fordhan University Press 2000

26 Compendium of the Social Doctrine of the Church Pontifical Council for Justice and Peace 2004

by state laws, including board of directors' authority to determine the structure and functioning of the board itself; this undermines directional discretion and business judgment²⁷.

The principle of solidarity reflects the social nature of people since it represents the awareness of their bonds of interdependence, the equality of all in dignity and rights, and the common path in committing themselves to promoting the common good in realising their roles as part of the social mortgage (that is, the view that all are debtors of society in establishing a long-term view by committing to save and provide for future generations through conservation of resources and the environment – this reflects the principle of stewardship). The universal right to the use of goods is based on the principle of the universal destination of goods which invites one to develop and share in an economic vision inspired by moral values that permit individuals and institutions not to lose sight of the purpose of material goods. Material goods ought to be used to facilitate the common good and their acquisition should not be viewed as an end in itself. Therefore, the right to private property ought not to be an absolute right, but under certain conditions, there can be common use of private property. Finally, the principle of participation is expressed when citizens contribute to the cultural, economic, political, and social life of civil society. These principles advance the importance of accountability for personal and corporate social responsibility and behaviour since they emphasise the relationship between the individual and institutions (including the firm which ultimately exists to facilitate human fulfilment beyond maximising shareholder returns).

The Aristotelian–Thomistic natural law/virtue ethics framework is based on a fundamental understanding of what constitutes the 'good' life: natural law requires one to seek one's last end of human flourishing or happiness (*eudaimonia*), and virtue ethics requires one to seek the appropriate means to achieve that end (both approaches can be viewed as the two sides of the same coin). Natural law also provides the regulative ideals (internalised normative dispositions to direct one's actions and alter one's motivation) through its first principles of speculative reasoning or non-contradiction (it is impossible for a thing to be and not to be at the same time and in the same respect) and principle of practical reasoning (do good and avoid evil); virtues provide the means for striving toward those regulative ideals in order to promote a culture of trust and integrity. The general principles of natural law are the cognitive foundation for the morally significant knowledge achieved connaturally in a virtuous life; virtues perfect these principles through regulating the inclinations they govern²⁸. It is through the virtues that the natural law is rendered morally efficacious.

Figure 1 posits the Aristotelian-Thomistic natural law/virtue ethics humanism view of human nature. Virtues are grounded in a rational appreciation of what it means to live a morally good life; they are enduring quality of character through which a person is able to act in a praiseworthy way or to live a morally good life. Virtues require the

27 D Katz & L McIntosh *Popular Wish Lists offer Legislative Parade of Horribles* Harvard Law School Forum on Corporate Governance and Financial Regulation July 28

28 R Cessario *The Moral Virtues and Theological Ethics* Notre Dame, University of Notre Dame Press 1991

repetition of acts as each act disposes one to perform the next more easily. The role of the virtues is the proper adjustment of a person's power; in particular, the passions or sensitive appetites ought to be under the control of reason, otherwise, the passions can 'cloud' reasoning and consequently disrupt the unity or integrity of a person. Virtues can either be classified as intellectual or moral, corresponding to the powers of the intellect and the will. The intellectual virtues are those that perfect a person's intellect, while those that perfect the will are called moral virtues. The essence of morality is not in primarily developing the intellectual virtues, but the moral ones, however, both are inter-related as discussed below.

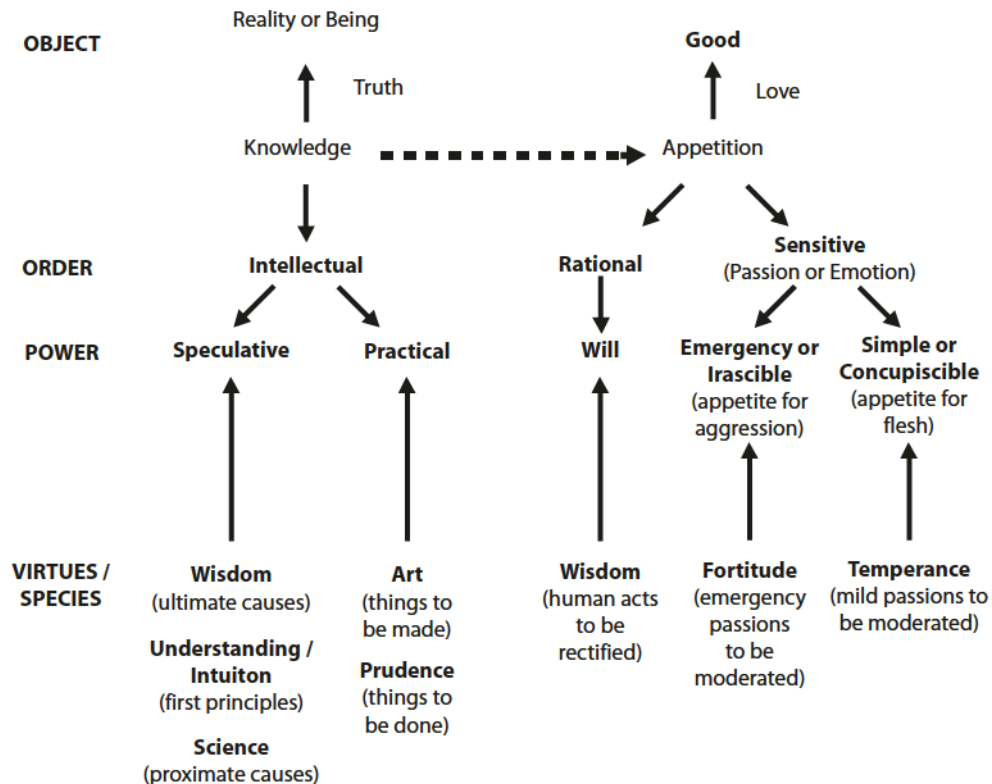


Figure 1: A Natural Law Humanism Model of Human Nature

Moral virtues are concerned with acting and choosing in the light of knowledge, as opposed to intellectual virtues which belong to the order of knowing. Although moral virtues are appetitive habits, they belong to the rational or intellective order, specifically to the will as opposed to passions which are of the sentient order. Truth is the object of the intellect while goodness is the object of the will. Since the function of the intellect is to discover truth, then lies and deception from outside (for example, prejudice, racial intoler-

ance, and social discrimination) and from within (for example, selfishness, envy, greed and pride) are its enemies. The will needs to be alert since it must not only choose the real (and not apparent) good, but also reject evil (especially 'attractive' evil). Burke points out that the relationship between 'intellect and truth' cannot be considered without reference to the intimately connected relationship between 'will and good'²⁹. For example, although the intellect can be clear and certain in judgment of what is true, the will can 'hijack' the intellect (the selfishness of the will is capable of preventing the intellect from recognising truth); also, errors of the intellect can have an effect on the will (the pride of the intellect is capable of disfiguring the good it presents to the will). This fundamentally explains the phenomena of why good people do bad things.

The intellect is endowed with virtues which assist and develop both the speculative and practical intellects. There are three virtues that help to perfect the speculative or theoretical activities of the intellect: (1) understanding or intuition (*nous*): the habit of first principles of thinking which is the ability (insight into or the facility for) to grasp truths without the effort of discursive reasoning; it is the habitual awareness of fundamental and self-evident truths, (2) wisdom (*sophia*): the ability to understand realities in light of ultimate causes; it is the habitual knowledge of fundamental truths and knowledge of things in their ultimate causes consisting of an ordering of all principles and conclusions into one body of truth, and (3) science (*episteme*): the ability to grasp conclusions in some specialised knowledge; it is the habit of possession of truth that has been demonstrated by evidence or has been proven. Two virtues help to perfect the practical activities of the intellect: (1) art (*techne*): the ability to choose efficient means to affect external productions and requires the knowledge of how to make useful or artistic things; it is the acquired and habitual knowledge of how to make things properly, and (2) prudence or practical wisdom (*phronesis*): the ability to discern the true ends or purpose of human conduct and to choose proper means to attain this end; it is the habit of knowing how to act morally upright in concrete situations. The speculative habits of the intellect are geared toward knowledge, while the practical habits are geared toward action.

Moral virtues, on the other hand, are habits which operate under the direction of the will. Since it is the will's function to obey right reason, moral virtues equip a person to act in accord with reason. There are many moral virtues as there are specifically different morally good acts, but they are all reducible to three core virtues (together with practical wisdom, they are known as the four cardinal virtues): (1) justice – the virtue through which one constantly gives others what is due to them, (2) fortitude – the virtue which gives one the ability to deal with difficult situations, and (3) temperance – the virtue which promotes self-mastery over one's tendencies for laziness, complacency, and disordered appetites. Virtues may be classified as those that control operations (prudence and justice) and those that control passions (fortitude and temperance). This can be reasoned as follows: to act morally well, a person must be assisted by virtues dwelling in those potencies from which human acts proceed and in those which tend to oppose the will. Therefore, a virtue must reside in

29 C Burke *Man and Values* New York, Scepter Publishers 2007

the following powers: (1) the intellect, (2) the will, (3) the simple or concupiscible appetite (this is an appetite for the flesh defined as the tendency toward the good as enjoyable), and (4) the emergency or irascible appetite (this is the appetite for aggression defined as the tendency of the good as difficult to attain). To act well, the intellect must be able to recognise a true good from an apparent good and present it to the will. This habit of recognising the reasonable thing to do in all concrete acts is the virtue of prudence. A person's will requires a special habit to respect the rights and goods of others; this is the role of the virtue of justice. People must be able to restrain themselves within reason in pursuing sensible goods (for example, bodily pleasures) and for this they need the virtue of temperance to moderate the concupiscible appetite. Similarly, people must be able to restrain themselves from acting unreasonably in the face of difficulty or danger; this requires the virtue of fortitude which enables them to act reasonably.

Intellectual activity does not make one unqualifiedly good, but good only in a restricted sense. It is in this sense that prudence can be considered not only as an intellectual virtue, but also as a moral virtue since it directs a person toward his or her ultimate goal. Also, while prudence resides in the intellect, it can also be considered a moral virtue because it is subject to the dominion of the will. In addition, the acquisition of prudence does not so much depend on a person's intellectual ability as in the strength of his or her will. A person of low intelligence can therefore be prudent through the influence of the will. Considered in themselves, the intellectual virtues are more excellent than the moral virtues since they pertain to the intellective aspect of a person, while the moral virtues regulate the passions which belong to the sensitive aspect³⁰. However, considered from the perspective of the service which they render to a person, the moral virtues are considered more excellent since they facilitate a person in attaining his or her last end. According to Pieper, moral virtues are the foundation and precondition of prudence; though prudence is the prerequisite for the appropriate realisation of the good (only one who is first prudent can do so)³¹. It is prudence which helps one to discover the appropriate application of the moral virtues in acting morally upright in concrete situations.

Pieper also gives a concise insight into the (cardinal) virtues which are described as the utmost of which a person can be: the realisation of the human capacity for being. Prudence is the cautious and more decisive faculty of one's spirit for shaping things—the hesitant seriousness and the filter of reflection, and yet also the daring courage for definite resolutions. Prudence means clear-headed thinking, uprightness, openness and impartiality of the being, elevated above all difficulties and expedencies of the merely 'tactical'. With respect to the virtue of justice, the basis of all just order in the world is manifested when one person

30 In his *Nicomachean Ethics*, Aristotle discusses how one should live so that one can attain happiness (eudaimonia) which is accomplished through the perfection of the intellect (by developing the five intellectual virtues and the perfection of the will (attained through the moral virtues). With respect to the moral virtues, Aristotle defines them as a state of character concerned with choice, lying in the mean between two vices (an excess and a deficit). For example, the excess of the virtue of courage is recklessness or foolhardiness, while its defect is cowardice; courage is the intermediate or golden mean (Aristotle op cit).

31 J Pieper *A Brief Reader on the Virtues of the Human Heart* San Francisco, Ignatius Press 1991

gives to another what belongs to the other. Injustice means that what belongs to someone is either withheld or taken from the other. Fortitude presumes to a certain extent that a person is afraid of moral transgressions; its essence does not consist in knowing no fear, but rather in not allowing oneself to be compelled by fear into wrongdoing or to fail in accomplishing a goal. The possibility of being courageous in the true sense comes about only when all those apparent or genuine elements of security fail. The person who puts himself or herself in ‘harm’s way’ uncritically and indiscriminately does not display fortitude; this merely shows that he or she places more value uncritically and indiscriminately on all kinds of things rather than on personal security which is placed at risk. The essence of fortitude lies in a correct appreciation of those things that are ‘risks’ as well as those things one hopes to protect or gain through one’s effort. Aggression or self-confidence is not essential to the virtue of fortitude, but rather perseverance and patience. This is not because the latter is more perfect than the former, but because the real world is structured so that it is in the most extreme emergency where the only resistance possible is perseverance and patience in which the final and most profound spiritual strength of the person can be manifested. Temperance is selfless self-preservation; intemperance or indiscipline is self-destruction through selfish debasement of powers intended for self-preservation. Temperance insofar as it keeps a person in order by vigilance and restraint, provides for both the realisation of that person’s own good and the authentic progression toward his or her goal.

Application of Virtues in Management Practice

The role of prudence has received scant attention in management decision-making. Moberg identifies four broad generic business contexts that require the application of prudence³²: (1) information uncertainties and ambiguities (one often needs more information than is available to conscientiously apply ethical norms to business situations), (2) executive binds (choices in which one alternative is more ethical than others, but it is also costly to oneself or to one’s close associate), (3) moral dilemmas (a choice required from among two or more morally-valued alternatives such that all cannot be chosen), and (4) ethical leadership predicaments (this occurs when people act better to align others’ actions with their moral commitments). Prudence also includes the use of moral imagination which helps one to grasp the moral quality of an act when one is engaged in moral deliberation³³. Moral imagination is the ability to cognitively reconfigure the details of a situation to discern creative possibilities for ethical action and involves the ability to empathise with others’ viewpoints. Prudence regulates the effective application of all other moral virtues.

With respect to organisations, justice refers to how the organisation achieves its objec-

32 D Moberg ‘Practical Wisdom and Business Ethics’ *Business Ethics Quarterly* 17 no 3 (2006) pp 535–561

33 E Roca ‘Introducing Practical Wisdom in Business Schools’ *Journal of Business Ethics* 82 (2008) pp 607–620

tives especially with regards to organisational effectiveness³⁴. For example, it applies to situations in which a company delivers its services in a way that appears unfair, prejudicial or overly bureaucratic; or where a firm gain its competitive advantage by exploiting its stakeholders or the environment. These scenarios involve the consideration of distributive justice (fairness of distribution of resources and rewards) and procedural justice (process by which decisions are made). The practice of justice in organisations is also reflected in promoting human dignity by providing just working conditions and just wages (not simply based on the state of the market which is often the source of discrimination, but based on the basic needs of the employees and their families' circumstances).

Fortitude in general involves the capacity to cope with difficulties and dangers, and not to be discouraged by them or be unduly fearful of them³⁵ (it may on occasion take on a dramatic or even heroic significance in highly critical situations, for example, whistle-blowing). According to Winter, courage is essential to business excellence and crucial to ensure a thriving, high performance organisational culture. It is required in a number of situations to spur discussions of 'un-discussables', to fight complacency and strategise turnaround, to empower others, to define accountabilities and set expectations of excellence, to move from 'I' to 'we' in building team for collective corporate governance decision-making, to explore the unknown, to nurture creativity, to take measured risks, and for contingency planning³⁶.

In their discussion of the application of justice, Charles Tatum and Eberlin³⁷ identify three decision-making scenarios that also involve the virtue of temperance in balancing various perspectives: (1) the microbiologist vs. the astronomer, (2) the quick draw vs. the sharpshooter, and (3) the clerk vs. the clergyman. In the first case, the manager ought to balance looking at the organisation like a microbiologist who peers through the lens of a microscope ('the devil is in the details') with the astronomer gazing through a telescope ('don't miss the forest for the trees'). The second case characterises a situation that requires a balance between a quick versus a considered decision-making scenario ('those who hesitate are lost' vs. 'look before you leap'). The final scenario calls for moderating the administrative aspects of running an organisation (the clerk) with dealing with the human aspects (the clergyman). The former includes procedural and structural aspects, due process and due diligence; and the latter involves issues of trust, team-building, respect, responsibility, and so on. Several other decision-making situations that require the virtue of temperance in moderating considerations include: short-term vs. long-term, legal vs. ethical, justice vs. mercy, creativity vs. discipline, emotive vs. cognitive, want-driven vs. idea-driven, planning vs. implementation, important vs. urgent, risk-aversion vs. risk-taking, flexibility vs. rigidity, permissiveness vs. firmness, humane vs. productive, and individual vs. community.

34 B Charles Tatum & R Eberlin 'Leadership, Ethics and Justice in Strategic Decision Making' *Business Strategies Series* 8 no 4 (2007) pp 303–310

35 J Mahoney 'Cultivating Moral Courage in Business' *Business Ethics: A European Review* 7 no 4 (1998) pp 187–192

36 C Winter 'Leading with Courage, Going out on a Limb' *New Zealand Management* (August 2008)

37 Tatum & Eberlin op cit

Revisiting the Two Humanistic Views

A utilitarian naturalistic humanism forms the basis for contemporary western business philosophy that focuses on an individuality which emphasises inward-directedness, autonomy, and an awareness of self-interest in which the agent is represented as intelligent, rational, utility-calculating and maximising ('satisfaction' in the case of consumers and 'profits' in the case of the firm), and free to participate in all economic decision-making³⁸. It is guided by principles such as the ends justify the means, win at all cost, and the greatest good for the greatest number. It considers the human person as a means and an object of production thereby reducing human dignity to be subjected to market forces with corresponding rights and responsibilities (extrinsically imposed or posited by the organisation or other authority) that are exclusively geared toward promoting efficiency and productivity. The human person is considered as a rational economic agent (*homo economicus*) in ranking alternatives in relation to preferences based on a utilitarian calculus which incorporates the concept of 'the greatest good for the greatest number'. The firm is viewed as a 'society of capital goods' with a focus on technical issues such as operational efficiency and productivity, which reinforces and facilitates the materialistic aspect of human nature through the commoditisation of human persons as economic goods or units. Because of its materialistic and reductionist view of human nature, it encourages the insatiate desire for more and more goods (fostering a hedonistic consumerism which cannot satisfy one's spiritual nature) in advancing one's individual good which may be at the expense of others, and so is more likely to foster unethical behaviour (embezzlement, falsifying records, misleading shareholders, government oversight agencies, etc.).

For example, in the 1970s, the Ford car company was aware of a serious defect in the design of the gas tank (which ruptured in relatively low impact rear-end collision) of its Ford Pinto model. Based on a utilitarian calculus (which imputes a value on human life), the company found that it was more cost effective to pay damages rather than recall the Pinto. In a more recent example, Tian Wehua, former board chairperson and general manager of Sanlu Group, pleaded guilty to charges of producing and selling fake or substandard products. Another seventeen persons (including three other Sanlu executives), involved in producing, selling, buying, and adding melamine in raw milk, were also brought to trial. Between May and September, 2008, when Sanlu stopped production, prosecutors said that the company made more than 900 tonnes of melamine-contaminated baby milk powder which led to the death of six children and illnesses in nearly 300,000 others, as well as global recall of Chinese milk products. Authorities claimed that milk suppliers mixed the nitrogen-rich powder into raw milk to fool quality tests for protein content. European standards allows up to 20 milligrammes of melamine per kilogramme to be present in food products, however, some Sanlu products were found to have over 2000 milligrammes per kilogramme. When ingested in large amounts, melamine can cause the

38 E O'Boyle 'Comments on the Foundations of Economic Personalism Series' *Journal of Markets & Morality* 6 no 2 (2003) pp 612–662

development of kidney stones and kidney failure. The high-profile defendants and the release of details in a US\$160 million compensation plan signal that authorities hope to end what was widely seen as a national disgrace, highlighting widespread food-safety problems and corporate and public sector malfeasance. The company has since filed for bankruptcy protection³⁹. Another example is that of Siemens AG of Germany who recently agreed to pay US\$1.6 billion, the largest fine for corruption in the history of anti-corruption prosecutions, for paying bribes across the world in many different business sectors. Among the transactions on which Siemens paid bribes include: design and building metro transit lines in Venezuela; metro trains, signalling devices and high voltage transmission lines in China; power plants in Israel; mobile telephone networks in Bangladesh; telecommunications projects in Nigeria; national identity cards in Argentina; refineries in Mexico; and kickbacks to Iraqi ministries in connection with sales of power stations and equipment to Iraq under the United Nation Oil for Food programme⁴⁰.

Under natural law humanism, while recognising that profits (considered an instrumental or intermediate goal) are a requirement of business and a measure of operational efficiency, the primary goal of business is to facilitate the well-being (happiness) of the human person. It fosters a personalistic anthropology (whose central tenet is the development of the human person) in which firms, whose instrumental value is to create wealth for their owners, exist primarily to facilitate the integral development of the human person through work. This rationale is based on the view that the moral justification for business involves the contribution it makes to human flourishing since the foundation, cause and end of any business activity ought to be the human person (business is for people, and not people for business). Wijnberg is also of the view that the firm should be considered as existing to allow decision-makers, who normally are managers, to live a complete and good life, and to make decisions that involve the interests of the different stakeholders⁴¹. The firm is therefore viewed as a 'society of persons' as it recognises that human fulfilment is attained through one's inner tendency to communicate and interact with others (self-transcendence). The main spiritual capital to safeguard is the human person and his or her dignity. This requires moving beyond self-centredness and self-interest to self-transcendence which is one's desire to surpass oneself and the limitations of one's own nature⁴². It opens the horizons of one's life to an awareness which draws a person out of self-centredness so that one does not become 'a law unto oneself'. This self-transcendence or 'drawing out of oneself' is promoted by the virtue of justice. De Torre notes that the individualistic anthropology (as promoted by a utilitarian naturalistic humanism) is blind to the fact that the human individual, as a person, is naturally inclined to go out of himself or herself, and communicate and interact with other persons and with the world at large through self-transcendence⁴³. Viktor Frankl's

39 EthicWorld News January 5 2009

40 Ibid

41 N Wijnberg 'Normative Stakeholder Theory and Aristotle: The Link between Ethics and Politics' *Journal of Business Ethics* 25 pp 329-342

42 Burke op cit

43 J de Torre Being is Person: Personalism and Human Transcendence in Socio-Economic and Political Philosophy Philippines, University of South East Asia and The Pacific Foundation 2005

logotherapy clinically demonstrates that the decisive power of conscious rationality or the search for meaning is an effort in the field of experimental psychotherapy to demonstrate the transcendental nature of the human person, as opposed to an immanentistic outlook of human nature⁴⁴. Table 1 summarises some key characteristic differences between naturalistic humanism and natural law humanism.

Characteristics	Utilitarian Naturalistic Humanism	Natural Law-Virtue Ethics Humanism
Goal	Maximising shareholder value/profits through pursuit of self-interest	Human flourishing or happiness through self-transcendence
Nature of Business	Society of capital goods (nexus of contracts)	Society of persons (includes spiritual capital)
Nature of Being	Considered materialistic (Homo Economicus)	Considered both materialistic and spiritualistic (Socio-Economic Person)
Guiding Principles	'Ends justify the means' 'Greatest good for the greatest number' Efficiency	Common good Subsidiarity Solidarity
Moral Responsibility	Shifts responsibility or blame on others or the business environment	Focuses on both personal and corporate social responsibility
Market Focus	Emphasises the short-term	Takes into account both the short and long-term
Role of Virtues	Based on extrinsic rewards (monetary or equivalent compensation)	Based on intrinsic and extrinsic rewards that promote human flourishing
Good to be Pursued	Individual or private	Individual and common good based on the universal destination of goods
Determinants of Moral Behaviour	Situational features, circumstances and consequences	Moral object, intention situational features, circumstances and consequences
View of Work	Considers work as a job or career for a livelihood	Considers work as a vocation in attaining human fulfilment
Rationality	Concerned with choice in ranking preferences	Concerned with choice in a hierarchical ordering of values of means and ends

Table 1: Characteristics – Naturalistic Humanism vs. Natural Law Humanism

44 V Frankl *Man's Search for Meaning: An Introduction to Logotherapy* New York, Simon & Schuster 1985

If one adopts a utilitarian naturalistic humanism view of human nature, then one subscribes to the view that an individual's behaviour is primarily determined by the consequences including those stemming from the situational features of the environment which encourage such behaviour. In such a case, in order to promote ethically-upright behaviour in the workplace, policy measures would be directed at addressing the situational features of the organisational culture, especially the tone at the top. Such policy measures would include codes, rules, and regulations along with their detection and enforcement mechanisms. If one adopts a natural law humanism approach, then, in addition to addressing the situational features, organisational policies would be aimed at shaping and developing internal characteristics such as emotions, desires, motivation, and intentions. Policy measures would therefore include education and training, especially in the development of virtues. The essential difference in policy measures is based on how economic progress and social justice are viewed; the utilitarian naturalistic humanism focuses on having and natural law humanism focuses on being.

Whether or not one adopts a naturalistic humanism or natural law humanism perspective, virtuous behaviour (for example, trustworthiness, loyalty, honesty, fairness, etc.) is critical for business success⁴⁵. Under the former, virtuous behaviour is motivated through external goods or rewards (monetary or equivalent compensation); under the latter, virtuous behaviour is motivated through both external rewards and those internal goods that give intrinsic satisfaction for a meaningful life (for example, nature, beauty, art, music, loyalty, friendship, etc.). The various humanistic views provide the basis for their respective moral principles and values which guide one's behaviour. It is the virtues that operationalise the principles and values through practically-wise decision-making and behaviour.

Conclusion

Utilitarian naturalistic humanism provides the driving force of the neo-liberal capitalist business models which are fundamentally materialistic: they reduce the human person to the economic person (that is, a materialistic view of human nature) and therefore fails to recognise a person's full nature and dignity. The serious omission in contemporary business and economic models is that they consider profits and the laws of the market as their major parameters, and do not adequately take into account the spiritual nature of the human person who demands respect for his or her dignity. In such a case, more value is given

45 Here, one can make a distinction between theistic ethics and atheistic ethics using virtue theory. A utilitarian naturalistic humanism would subscribe to the cardinal virtues (atheistic ethics); natural law humanism as discussed in this paper would, in addition, subscribe to the theological virtues of faith, hope and charity (theistic ethics). Although the cardinal virtues are necessary for living a morally good life, they alone cannot fully attain the natural good at which they aim due to the universal defect in human nature which renders one incapable of attaining the natural good without supernatural help (J Porter *The Recovery of Virtue: The Relevance of Aquinas for Christian Ethics* Louisville Kentucky, Westminster/John Knox Press 1990 pp 168)

to the object of work (what one produces) than to the subject of work (the dignity of the human person). It is not simply a matter of external conditions such as cordial relationships and safe working conditions, or wealth creation and distribution, but one needs to examine whether or not business philosophies and economic systems curtail human dignity by subordinating the human person to merely utilitarian ends in order to raise productivity and profitability. Aristotelian-Thomistic natural law humanism as developed in this paper better captures the metaphysical realities of human nature which specify a values-shift from a materialistic view of human nature toward a view that incorporates intrinsic satisfaction or human flourishing. It is directed to the service and development of the human person in his or her totality which takes into account the requirements of one's material, intellectual, moral, cultural and religious needs. The failure to integrate the virtues and natural law ethical principles into management practice threatens the stability and survival of the firm since they are required to correct the dysfunctional aspects and ethical deficit of the current business philosophy.

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