BUSINESS ETHICS

SECOND EDITION

A Kantian Perspective

Norman E. Bowie

Business Ethics: A Kantian Perspective

It is more important than ever that a business must be both ethical and profitable. In this thoroughly revised and updated second edition, Professor Norman E. Bowie shows that by applying Kant's three formulations of the categorical imperative, and by doing the right thing for the right reason, a business can achieve success in both of these fields. Bowie uses examples such as building trust, transparency through open book management and respecting employees by providing a living wage and meaningful work.

This new edition for graduates and academic researchers in the field of business ethics, has been heavily revised to include the newest scholarship on Kantian ethics, including:

- A new emphasis on Kant's later moral and political theory.
- A workable account of Kantian capitalism.
- Accounts on corporate social responsibility, Kantianism and human rights, corporate moral agency, and the Kantian theory of meaningful work.

Norman E. Bowie is Professor Emeritus at the University of Minnesota where he held the Elmer L. Andersen Chair in Corporate Responsibility. He is best known for bringing the moral philosophy of Immanuel Kant to bear on issues in business ethics. He authored or edited 18 books and about 100 articles. He is past president of the Society for Business Ethics and recipient of the Society's award for outstanding scholarly achievement. He has been honored with a festschrift under the title *Kantian Business Ethics: Critical Perspectives*.

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CAMBRIDGE
UNIVERSITY PRESS

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One Liberty Plaza, 20th Floor, New York, NY 10006, USA

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning, and research at the highest international levels of excellence.

www.cambridge.org
Information on this title: www.cambridge.org/9781107543959
10.1017/9781316343210

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First published 2017

Printed in the United Kingdom by Clays Ltd.

A catalogue record for this publication is available from the British Library.

Library of Congress Cataloging-in-Publication Data
Names: Bowie, Norman E., 1942– author.
Title: Business ethics: a Kantian perspective / Norman E. Bowie, University of Minnesota.
Description: Cambridge, United Kingdom: Cambridge University Press, 2017. | Revised edition of: Business ethics: a Kantian perspective, originally published in 1999. | Includes bibliographical references and index.
Identifiers: LCCN 2016041865| ISBN 9781107120907 (hardback) | ISBN 9781107543959 (paperback)
Subjects: LCSH: Business ethics. | Business ethics – Philosophy. | Kant, Immanuel, 1724–1804.
Classification: LCC HF5387.B683 2017 | DDC 174/.4–dc23
LC record available at https://lccn.loc.gov/2016041865

ISBN 978-1-107-12090-7 Hardback
ISBN 978-1-107-54395-9 Paperback

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My wife Maureen provided encouragement to both do this project and get it done

Contents

Preface

The first edition published in 1999 was the culmination of five years of research that began in 1994 with an invitation to present a Ruffin Lecture at the Darden School, University of Virginia. I decided to write on Kantian capitalism because my friend Ed Freeman had not completed that project himself. His essay with the late William Evan published in the third edition of Beauchamp and Bowie's *Ethical Theory and Business* was entitled, "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism." However, Freeman's stakeholder theory took a pragmatic turn, and I took up the challenge of presenting a Kantian theory of business ethics. Over the past two decades Ed and I have continued a friendly debate about the role of pragmatism in business ethics. Ed has even argued that my Kantian capitalism has become pragmatic over the years. I invite the readers of the second edition to decide for themselves whether Freeman is correct.

During the 1996–97 academic year I took a sabbatical as a fellow at Harvard's Program in Ethics and the Professions as it was called then. My colleagues in that program under the leadership of Dennis Thompson provided invaluable insights as I turned my original idea of Kantian capitalism into a book. The resulting book was published in 1999 to reasonable reviews but frankly not much enthusiasm. However, gradually a critical literature around the book arose, and some younger scholars, including several in Europe, began expanding the Kantian project. A festschrift in my honor brought forth several innovative insights into Kantian business ethics such as a Kantian theory of environmental ethics in a business context. I followed up with a more general book on business ethics, *Business Ethics in the 21st Century* (2013). One chapter of that book was devoted entirely to how I thought *Business Ethics: A Kantian Perspective* should be revised and included some of my reaction to scholars who were taking Kantian business ethics in new directions. I had thought that *Business Ethics in the 21st Century* would be my last book, but Cambridge

University Press offered me the opportunity to revise and expand on the first edition. I was delighted to take up the task. So here are my latest thoughts on Kantian business ethics in a context where there is much more enthusiasm about Kantian capitalism then there was when the first edition was published.

I remain indebted to those individuals and institutions who contributed so much to my being able to successfully complete the first edition. As for the second edition, I wish to thank the two anonymous reviewers for Cambridge University Press for their many helpful criticisms and comments. Several of the additions to this edition are the result of their critical analysis. I owe special thanks to Kendy Hess and Amy MacArthur who critically reviewed my account of corporate moral agency and allowed me to quote from their work, some of it unpublished.

I wish to thank several colleagues and friends who reviewed sections of the manuscript and made many helpful comments. Jeffery Smith and Marc Cohen were invaluable in that regard. I also benefited from questions and comments from a presentation based on Chapter 4 that I made at York University in Toronto. Mark Schwartz was especially helpful at that time.

I was marvelously served by three editors at Cambridge University Press. Paula Parish guided me through the initial contract and review process while Valerie Appleby and Joshua Penney guided me through the production process. Also thanks to the entire production team of Siva Prakash Chandrasekaran, Fred Goykhman, and Jim Diggins.

I am thankful to Blackwell Publishers, now a part of Wiley, for allowing the rights to revert to me and thus enable publication of the second edition. The discussion of corporate ethics programs in Chapter 2 is based on a portion of an article that Scott Reynolds and I published in *Business Ethics Quarterly*. See "A Kantian Perspective on the Characteristics of Ethics Programs," *Business Ethics Quarterly*, 14 (2004), 275–92.

Chapter 2 also contains my discussion of two critics of my analysis of meaningful work by Joanne Ciulla and Joseph Desjardins, which is heavily based on my article "A Reply to my Critics" in *Kantian Business Ethics: Critical Perspectives*, D.G. Arnold and J.D. Harris (eds.) (Cheltenham, UK: Edward Elgar, 2012), 175–89. Permission granted by Edward Elgar, the editors Denis Arnold and Jared Harris, and by my critics Joanne Ciulla and Joeseph Desjardins whom I generously quoted.

Chapter 3 contains material on a Kantian theory of leadership from a much more extended discussion of that topic. See "A Kantian Theory of Leadership," *Leadership & Organization Development Journal* 21 (2000), 185–93, reprinted by permission of Emerald Group Publishing

The central argument of Chapter 4 is that one can both be a Kantian and believe that good ethics is good business. Having profit as a reason for action does not violate Kant's insistence that for an action to be morally worthy it must be done from the proper motive – because it is right. I also claim that managers have a duty to be beneficent, that is, to practice corporate social responsibility, and that doing so is also consistent with their obligation to seek profit. All this was argued in "Why Kant's Insistence on Purity of Will does not Preclude Application of Kant's Ethics to For-Profit Businesses," in *Wealth, Commerce, and Philosophy: Foundational Thinkers and Business Ethics*, E. Heath and B. Kaldis (eds.) (University of Chicago Press, 2017, used by permission of University of Chicago Press.

Chapter 4 also includes the image of Professor Archie Carroll's "Pyramid of Corporate Social Responsibility," used by permission of Archie B. Carroll. Archie B. Carroll, "Managing Ethically with Global Stakeholders: Present and Future Challenges," *Academy of Management Executive* 18.2 (2004), p. 116, adapted from Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons*, 34 (1991), 39–48.

Introduction

The first edition of *Business Ethics: A Kantian Perspective* was followed by several papers in scholarly journals such as *Business Ethics Quarterly* and *Journal of Business Ethics* on specific topics such as "A Kantian Theory of Meaningful Work." For a few years after publication of *Business Ethics: A Kantian Perspective*, it seemed as if I were the only person working on a Kantian theory of business ethics. More recently, however, a number of scholars have become active in the project to apply Kantian ethics to issues in business ethics. Among these scholars are Wim Dubbink, Jeffery Smith, and Amy MacArthur. *Kantian Business Ethics: Critical Perspectives*, the festschrift on my work in business ethics, presented a number of innovative ideas for expanding the Kantian business ethics project into such areas as business obligations to the environment and business obligations in the financial service sector that was stimulated by the financial crisis of 2008–09. In addition, other scholars began to show how various claims made by Kantians could be tested empirically. A more detailed discussion of how Kantian capitalism dovetails with empirical research follows later in this introduction.

The new group of scholars mentioned in the preceding paragraph have made much use of Kant's *Metaphysics of Morals* to move the Kantian project forward. In the first edition, I ignored the *Metaphysics of Morals*, an oversight that I have tried to correct in the second edition. The second edition weaves insights from *Metaphysics of Morals* and Kant's later moral and political philosophy throughout the chapters as the subjects under discussion warrant.

One of the areas in which the *Metaphysics of Morals* has been most helpful is in the discussion around the debate about corporate agency. That debate is one of the few areas of business ethics that I have virtually ignored throughout my career. The debate about corporate agency is the debate around the notion of whether corporations are sufficiently like people to be held morally accountable. Historically

Peter French has defended the notion of corporate agency while a host of critics have been allied against it. In this second edition, I have a lengthy discussion of this debate and my own defense of a somewhat limited notion of corporate agency. Since I want a theory of Kantian capitalism that applies to all three levels of analysis – the individual, the organizational, and the societal – I felt it necessary to provide an account of corporate agency that would allow me to speak of holding a corporate entity – as distinct from an individual or individuals in the corporation – responsible.

Philosophers and social scientists have often been in conflict about the value that each brings to the table of business ethics. Some social scientists have thought that if ethical analysis is not based on scientific facts about how organizations and businesspeople behave, then philosophical ethics and by implication Kant's ethics have little practical relevance. Some philosophers, on the other hand, have thought that their social science colleagues have missed the point, since the job of ethical theory is to ask whether the corporate conduct can be justified, and if so on what grounds. The fact that people behave in a certain way does not mean that they ought to behave in this way. As social scientists and philosophers have attended each others' conferences, especially in meetings of the Society for Business Ethics and the Social Issues in Management Division of the Academy, and have published in the same journals – *Business Ethics Quarterly* contains both empirical and philosophical research – I had thought that much of the old animosity between the two had disappeared. Unfortunately, a recent development has rekindled the animosity, especially by those called behavioral ethicists who have questioned the utility and legitimacy of philosophical ethics. Some of the leading spokespeople in that group have been quite aggressive in arguing that in light of what we know about human behavior, philosophical ethics is useless as a tool for changing corporate behavior.

In the first edition, I said the following about empirical research in business ethics: I believe that empirical knowledge does have an important role to play within Kant's theory. I then quoted Kant.

> Practical philosophy (that is, the science of how man ought to behave) and anthropology (that is, the science of man's actual behavior) are closely connected and the former cannot subsist without the latter; for we cannot tell whether the subject to which our considerations applies is capable of what is

demanded of him unless we have knowledge of that subject. It is true that we can pursue the study of practical philosophy without anthropology.… But our philosophy is then merely speculative and an Idea. We therefore have to make at least some study of man.[1]

Barbara Herman, a Kant scholar, follows Kant here when she says, "The *application* of the moral law, cannot be carried out, however, without empirical knowledge of the object of application."[2] In the first edition and indeed throughout my research on Kantian capitalism, I have tried to show how the facts about enlightened management fit with the kinds of moral demands that a Kantian capitalism places on firms. Of course, some have criticized my attempt to show that good ethics is good business as not Kantian, but I defended myself from that criticism in chapter 4 of the first edition, and I have provided an even lengthier defense based on a number of publications since the first edition and here in Chapter 4 of this second edition.

But I can go even further in blending the ethical and the empirical. Some of my statements about what Kantian capitalism ought to do can be restated as empirical hypotheses of the following form: If a company does what it ought to do under Kantian capitalism, then, other things being equal, it will be more profitable. For example, I have indicated how the elements of a Kantian market morality could be restated as hypotheses about the evolution of an international Kantian capitalism – insights that I have developed in Chapter 5 of the second edition.

The result of all this activity is that the second edition, although the same in outline as the first edition, is radically revised. For those unfamiliar with the first edition, this Introduction provides an overview of some of the new themes tackled in the second edition as well as a chapter-by-chapter explanation of the changes I have made.

In the first edition, I did not spend too much time discussing well-known criticisms of Kant's universalization formulation of the categorical imperative. Rather, I simply pointed out that contemporary scholars had published extended and detailed response to these criticisms. In Chapter 1 here, I have added a lengthy section discussing the responses to these criticisms, including responses from Kantian business ethics scholars.

Chapter 1 also contains the challenge of behavioral ethics, mentioned earlier here, and my response to it. Readers who would like to move directly to the insights that the first formulation provides on issues in business ethics can skip these two sections (pp 14–26) and proceed directly to page 26.

Chapter 2 contains three significant additions. After completing the first edition, I wrote a paper focusing on a Kantian theory of meaningful work. That paper precipitated a fair amount of critical commentary, and I subsequently responded. That commentary and my response are included in Chapter 2 here. Two of the most extensive critiques were published in the aforementioned festschrift *Kantian Business Ethics: Critical Perspectives*. Although a trend toward income inequality had already begun in the 1990s when the first edition was published, that trend has steadily increased during the early twenty-first century. I argue in Chapter 2 that extreme inequality of income is incompatible with the respect for the humanity in a person formulation of the categorical imperative, and that an increased minimum wage is one policy recommendation that would bring practice more in line with what Kantian capitalism requires. Finally I have included some thoughts regarding Kantian ethics programs based on an article that Scott Reynolds and I published in *Business Ethics Quarterly*.

Chapter 3 contains my discussion of corporate agency. That discussion provides an overview of the debate as well as my limited account of corporate agency. That extensive account is entirely new. I respond in detail to Matthew Altman's criticisms of my account of corporate agency from the first edition. I then consider some plausible accounts of corporate moral agency by Denis Arnold, Kendy Hess, and Amy MacArthur, all of which seem reasonable and show that the attempt to provide a theory of corporate or collective agency is still alive and well. However, if one is skeptical of all accounts of corporate moral agency, there is also the possibility of a transcendental argument for corporate agency. Or if the transcendental argument fails, one can finally claim that treating corporations as having moral agency may be a practical necessity.

There is also a discussion of a Kantian theory of leadership based on a paper I published in the *Leadership Development Journal*. The discussion in Chapter 3 provides an overview of my theory of Kantian leadership. A description of the ABB Relays case is taken directly from that article.

Chapter 4 "Acting from Duty: How Pure a Motive" has been updated to account for the evolution of my thinking on this topic. In recent and forthcoming publications I have presented an expanded and more detailed analysis of why acting ethically because it is good business to do so does not violate Kant's insistence that a truly moral action must be done out of duty. Central to my analysis is the claim fundamental to traditional business ideology that managers have a duty to enhance shareholder wealth. If we accept that duty, we must also accept, at least prima facie, as duties any actions that are necessary to the achievement of shareholder wealth. Chapter 4 also contains a Kantian account of corporate social responsibility (CSR). CSR did not receive any discussion in the first edition. My account draws heavily on the work of Jeffery Smith and compares and contrasts my own account with a number of other Kantian ethics scholars working on a Kantian vision of CSR.

The final chapter, Chapter 5, on Kant's "Cosmopolitan Perspective," is extensively revised. Recall that it was written before 9/11 when Francis Fukuyama's *The End of History and the Last Man* was much in vogue. Events in the early twenty-first century present a major challenge to Kant's cosmopolitanism, and I have tried to address that challenge in this edition. In addition, there have been major developments in scholarship on international business ethics. The publication of the 2011 Ruggie Report for the United Nations has stimulated much discussion on human rights and the obligations of multinationals to protect and sustain human rights. A Kantian perspective on these issues is a focus of the chapter. In addition, Denis Arnold and I had published a paper giving a Kantian argument for the reform of sweatshops. That article has received considerable critical comment. An overview of the debate and my reflections on that debate are also included in Chapter 5.

Once the first edition was published, I became increasingly interested in transaction cost economics. Although sometimes described as "opportunism with guile," it seemed to me that transaction cost economics provided useful theoretical support for a number of contentions in business ethics. In the first edition I appealed to rather simple economic arguments to show that there were universal values in business and that an examination of transnational codes would confirm the existence of such values. After publication of the first edition, I used a rather crude understanding of transaction cost economics to argue that it was in the interest of multinational corporations to subscribe to certain universal values in the practice of international business. After consulting with my colleague Paul Vaaler, we developed a more sophisticated version of the argument that was later published. It also seemed to me that the theoretical argument provided an opportunity for testable empirical propositions regarding the realization of these universal values. My transaction cost economics arguments in the current edition have now replaced my more simplified arguments of the previous edition.

This edition has been extensively revised, and there is a wealth of new material. In making the revisions, I have removed dated material, so the end result is a book not dissimilar in length to the first edition. After working in the wilderness – or so it seemed – on the first edition, it has been a pleasure to reference at least in passing and often in detail the excellent work now being done to show how Kantian moral philosophy can enrich the field of business ethics.

Notes

1 I. Kant, *Lectures on Ethics*, 1785, L. Infield, Trans. (Indianapolis: Hackett Publishing Co. 1963), 2–3.

2 B. Herman, *The Practice of Moral Judgment* (Cambridge, MA: Harvard University Press, 1993), 232.

1 *Self-Defeating Immoral Business Practice*

Most businesspeople would agree with the average American that a bedrock moral principle is the Golden Rule: "Do unto others as you will have them do unto you." The problem with the Golden Rule is that so long as you are willing to let others treat you in an immoral way, it seems as if you are allowed to treat them immorally as well. You sometimes find such an attitude in business expressed in the following way: I do not care if people try to deceive me or cheat me. That's how it is in business. The business world is a jungle. And since I am willing to let others try to deceive or cheat me, it is morally OK if I try to deceive or cheat them.

Albert Carr provided the classic statement of this position in a 1968 *Harvard Business Review* article:

> We live in what is probably the most competitive of the world's civilized societies. Our customs encourage a high degree of aggression in the individual's striving for success. Business is our main area of competition and it has been ritualized into a game of strategy.… That most businessmen are not indifferent to ethics in their private lives, everyone will agree. My point is that in their office lives they cease to be private citizens; they become game players who must be guided by a different set of standards … The golden rule for all its value as an ideal for society is simply not feasible as a guide for business. A good part of the time the businessman is trying to do to others as he hopes others will not do unto him.[1]

And what does the game of business most resemble? Carr's answer: Poker.

> Poker's own brand of ethics is different from the ethical ideals of civilized human relationships. The game calls for distrust of the other fellow. It ignores the claim of friendship. Cunning deception and concealment of one's strength and intentions, not kindness and open heartedness, are vital in poker. No one thinks any worse of poker on that account. And no one should think any worse of the game of business because its standards of right and wrong differ from the prevailing traditions of morality in our society.[2]

Carr's article provoked a tremendous business response, much of it negative. However, there are many indications that Carr's position or positions close to it are widely held, especially in the United States. Those of us who have taught MBA courses know that cynicism about business ethics is widespread. Moreover, a surprising number of companies that had served as icons of morally responsible behavior have, as a result of ethical missteps, fallen off their pedestals. British Petroleum, Royal Dutch Shell, Merck, and Hewlett-Packard come to mind. Moreover, the widespread accounting scandals in 2001 and the widespread belief that the financial crisis of 2008–09 was caused by misconduct on the part of mortgage companies, banks, and other financial institutions has added to the cynicism about the ethics of business practice.

Both cynicism about business ethics and actual business misconduct are dangerous to capitalism. One of the strengths of Immanuel Kant's moral theory is that he can avoid the weakness of the Golden Rule described earlier and show that immoral business practice is irrational. The task of this first chapter is to spell out Kant's argument and some of its implications.

Inconsistency and Immorality

To illustrate Kant's strategy, consider his example of making a promise with no intention of keeping it. Kant, along with most everyone else, believes that such an action is morally wrong and that deep philosophical analysis is not required. To put it another way, we learn our ethics at our mother's knee and make ethical decisions on that basis. Kant thought that the contribution of his moral philosophy was to show what one ought to do in hard cases – those cases where it was hard to know what was right. That is why in his example the person only considers making a promise with no intention of keeping it when he is under extreme financial distress. He desperately needs money but knows he cannot repay it.[3]

To answer the question as to whether a person in desperate financial straits is morally permitted to make a promise to return borrowed money with no intention of doing so, Kant would instruct the person to construct a general principle (maxim) that captured the action. In this case the general principle would be: "It is morally permissible to make a promise with the intention of breaking it." Kant then asks us whether such a maxim could become a universal law. The answer is "no," because that maxim is contradictory. It is contradictory because if everyone could break a promise, promises would never get made. If such a maxim were universalized, the very notion of promises would make no sense. As Kant says,

> And could I say to myself that everyone may make a false promise when he is in difficulty from which he cannot escape? Immediately I see that I could will the lie but not a universal law to lie. For with such a law there would be no promises at all, inasmuch as it would be futile to make a pretense of my intention in regard to future actions to those who would not believe this pretense or – if they over hastily did so – would pay me back in my own coin. Thus my maxim would necessarily destroy itself as soon as it was made a universal law.[4]

The general point to be made from Kant's discussion of the immorality of lying is that self-contradictory universalized maxims are morally prohibited. That is why it is wrong to break a promise; the maxim for that action could not be consistently universalized.

Kant's central insight is captured in the first formulation of his categorical imperative. The first formulation of the categorical imperative says, "Act only on that maxim by which you can at the same time will that it should become a universal law."[5] Kant wants to show that some principles (maxims) on which actions are based are inconsistent or self-defeating. It is impossible for everyone to act on the basis of the principle; that is why the principle cannot be accepted as universal law. If an individual acted on a principle that it would be impossible for everyone to follow, that individual's action would be wrong. That is precisely what was wrong with the idea of making a promise with the intention of breaking it.

Thus the categorical imperative functions as a test to see if the principle (maxim) on which an action is based is morally permissible. So long as the principle for one's action passes the test of the categorical imperative, the action may be undertaken. A business manager who accepts Kantian morality would ask, for any decision, whether the principle on which the decision is based passes the test of the categorical imperative. If it does, then the decision would be morally permissible.

Applications to Business

The making of promises is a practice. It is important to note with Christine Korsgaard that the self-contradiction interpretation of the categorical imperative works well for the violation of the rules of a practice: "[A] practice has a standard purpose and if its rules are universally violated it ceases to be efficacious for this person, and so ceases to exist."[6] Since business consists, at least in part, of a number of practices with standard purposes, we might expect Kant's universal law formulation of the categorical imperative to work well in business – and so it does.

Consider the breaking of contracts. A contract is an agreement between two or more parties, usually enforceable by law, for the doing or not doing of some specific thing. A contract is one of the more formal ways of making a promise. The hiring of employees, the use of credit, the ordering and supplying of goods, and the notion of warranty, to name but a few, all make use of contracts. If a maxim that permitted contract-breaking were universalized, there would be no contracts (contracts would cease to exist). No one would enter into a contract if they believed the other party had no intention of honoring it. A universalized maxim that permitted contract-breaking would be self-defeating.

Consider theft. Theft by employees, managers, and customers is a major problem in business, as even a cursory Internet search will show. Is employee theft wrong? Suppose that an employee, angry at her boss for some legitimate reason, considered stealing something from the firm in retaliation. Could a maxim that permitted stealing be universalized? It could not. For theft to exist, an institution of private property must exist. Why? Consider the alternatives. If there were no scarcity so that all goods and services were readily available and accessible by everyone, there would be no need to steal, and thus there would be no concept of stealing, at least not in the way we know it. Similarly, in a world with only public property, where all goods and services belonged to everyone, there would be no private property to take, and thus no concept of stealing. Obviously neither of those utopias is our world, and the institution of private property has been devised to deal with the fact that goods and services are in limited supply and that universal collective ownership is impractical. If a maxim that permitted stealing were universalized, there could be no such thing as private property. If everyone were free to take from everyone else, then nothing could be owned. Given the practical necessity of some form of private property, a universalized maxim that permitted stealing would be self-defeating. Thus, if the employee steals from her boss, what she does is morally wrong. The fact that she has been ill-treated does not justify stealing. At first one might think so because of the ill-treatment. But once the categorical imperative test is applied, one can see that stealing is not an ethical response to the ill-treatment.

Now consider an objection to Kant's no self-contradiction requirement raised by Hegel, Bradley, and several others. The argument runs like this: If there is a practice of private property, then a maxim that permitted stealing is self-contradictory. But there is nothing self-contradictory about a world without the practice of private property. So Kant's argument allegedly fails.

But as Korsgaard has argued, this criticism misses Kant's point.[7] Kant is simply arguing that if there is a practice of private property, then a maxim that permitted stealing is logically self-contradictory. All societies have some form of private property, so as a practical matter, stealing is universally wrong in all situations where private property exists.

Another example is the practice of lining (queuing) up. There is nothing inconsistent about a society that does not have such a practice. However, in a society that does have the practice, cutting the line is morally wrong. The maxim on which the act of line-cutting is based cannot become a universal law. An attempt to universalize line-cutting destroys the very notion of a line.

What is helpful about Korsgaard's response on behalf of Kant against Hegel and his other critics is that it allows the categorical imperative to work for the rules of any institution or practice. Indeed, the test of the categorical imperative becomes a principle of fair play. One of the essential features of fair play is that one should not make an exception for oneself.

With this notion of fair play, we can use Kant's first formulation of the categorical imperative to show that whenever someone, including someone in business, agrees to follow the rules for cooperative behavior and then violates those rules for personal gain, such a violation is morally wrong. A maxim that permitted universal violation of the rules is self-defeating. A universally violated rule is not a rule.

This kind of analysis shows that free-loading is morally wrong. A free-loader is one who accepts the advantages of the rules of cooperative behavior but then either violates the rules or fails to contribute his share in supporting them. Most of us would characterize free-loading as unfair or unjust. Kant's universalizability formulation of the categorical imperative explains why it is unjust. If free-loading were universalized, then the rules that make cooperative activity possible could not exist.

Another way of putting this is as follows: What's wrong with free-loading? You are not making a contribution to the institution that relies on the contributions of those participating in the institution – a contribution that you agreed to make when you agreed to participate in the institution. That is what it means to be a free-loader. If for some reason a maxim permitting free-loading were universalized, the institution itself would be undermined, but the participants in the institution want the institution to exist, so free-loading must be immoral.

These Kantian–type arguments apply to almost all competitive situations as well. Capitalism is a system of economic competition, but even competitive activity requires rules regulating competition. As Adam Smith and all after him have realized, capitalism requires rules protecting property rights, enforcing contracts, and settling disputes; otherwise, business activity would be impossible. As indicated at the outset, some describe the business world as a jungle, but if it truly were a jungle, business itself would not survive.

Someone who enters a competitive activity and violates the rules regulating that competition acts immorally. Why? Because if the rules regulating competition were universally violated, those "rules" would no longer be rules. If regulatory rules are universally violated, regulation is impossible. Such activity would be self-defeating in two senses. Universal violation of the rule would make the rule nugatory. And since the rule is one that is required to keep competition from degenerating into chaos or a war of all against all, the universalized violation of rules would make welfare-enhancing competition itself self-defeating. Although this point is often lost on businesspeople who are adversely disposed to regulation, more enlightened businesspeople recognize that some regulation is necessary in a capitalist system. The issue for these businesspeople is to be sure that regulation is beneficial in promoting fairness and stability rather than being counterproductive.

What is significant but often overlooked is that Kant's universalizability formulation of the categorical imperative is subject to empirical support. In some ways that should not be surprising. If someone tries to create a round square, we can predict that this person will not succeed. Similarly, if stealing or cheating when universalized is conceptually incoherent, then we would expect the collapse of certain institutions and practices or that some institutions and practices would not be available in those societies. Now, we do not have a case of universalized cheating, but we do have close approximations. We can empirically observe that Kantian-type effects take place when actions whose maxims cannot be universalized reach a certain threshold. One example concerns the difficulties that Russia had in creating a stock market after economic reforms swept that country in the 1990s. What caused the difficulty, among other things, was that companies would not provide accurate financial information. As a Kantian would expect, investors will not be forthcoming if they believe that the companies in the stock exchange do not provide information or provide inaccurate information. Gradually a few companies including Irkutsk Energo, Bratsky, LPK, and Rostelecom were able to establish a reputation as truth-tellers. There companies were then able to attract investors. The *Wall Street Journal* put it this way:

> When the chief engineer at Irkutsk Energo addressed a gathering of 250 Western fund managers last March, he gave a straightforward presentation of the Russian utility's assets, liabilities, and investment policy. This was anything but typical in Russia where enterprises usually withheld even basic information from investors.… This winter (1995) a few mavericks proved the value of corporate glasnost. As these companies drew foreign interest, others followed.[8]

In trying to establish a stock market, the Russians faced the problem that lying about the finances of the firm was perceived to be nearly universal. As a Kantian would expect, so long as that perception continued, Russian society could not have a bona fide robust stock market. However, once a sufficient number of firms were perceived as being truthful about their finances, the stock prices of those firms rose rapidly to reflect rational expectations. By 1996, the Russian stock market was up 127 percent.

One of the more perplexing difficulties facing ethical theorists is what to do when other parties seem to be benefiting from unethical behavior. However, the example of the establishment of the Russian stock market shows that there can be an advantage to gaining a reputation for honesty when most or many in the industry or business practice are dishonest. In these situations, if one can get a reputation for honesty, there is a real competitive advantage in doing so.

Objections to This Kantian Analysis

Some have argued that Kant is an absolutist in ethics; that for Kant being ethical is a matter of following absolute moral rules that have no moral exceptions. On that view business ethics would consist of a set of absolute rules that business should follow without exception. Kant's infamous essay "On a Supposed Philanthropic Justification for Lying" is partly responsible for this criticism. Nonetheless, most commentators believe that Kant's ethical theory is not absolutist in any fatal sense and that, as we will see shortly, Kant's categorical imperative is not even designed to apply rules directly to specific issues of business ethics irrespective of circumstances or the particularity of the situation.

The categorical imperative is absolute in the sense that if the principle (maxim) for an action is not in conformity with it, then that action is unconditionally wrong, which means that an imperative is categorical. A hypothetical imperative, by contrast, is an if-then imperative. "If you want a good job, you ought to go to college" is a hypothetical imperative. Thus, one need only obey hypothetical imperatives if one values the ends. However, categorical imperatives are obligatory on their face. Certainly in some respects, Kantian ethics is stringent. Principles for action that fail the test of the categorical imperative are wrong.

Having made that point, a categorical imperative still provides flexibility in ethics. If the only alternative is between a principle that fails the test and a principle that is the logical contradiction of the principle that fails the test, then the logical contradiction of the principle that fails the test is morally required. But there is often a number of alternatives to the principle that is forbidden by the test of the categorical imperative. If a person has a number of alternatives and principles (maxims) for the alternatives that do pass the test of the categorical imperative, then the person is morally free to choose whichever alternative she likes. To illustrate this point, in Chapters 2 and 3, I argue that Kantian moral theory requires that employees in a corporation have a right to participate in formulating the rules and policies that affect them. However, I give several examples of different participative schemes that would meet the requirement for participation and thus pass the tests of the categorical imperative. Moreover, the decision as to which of the permissible principles to adopt depends on the situation. Context does have a role to play in Kant's ethical theory.

Another common criticism of Kantian ethics is that it cannot take account of special relationships. In the context of business ethics, a critic might ask, doesn't loyalty count for something, and if so, doesn't that undercut Kant's insistence that the categorical imperative must be applied impartially? However, Kant recognizes special relationships. When discussing the duty of beneficence in the *Metaphysical Principles of Virtue*, Kant says:

> For in the wishing, I may be benevolent to everyone alike, but nevertheless, in the doing, the degree be very different according to the differences in the person loved (of whom one may concern me more than another), without violating the universality of the maxim.[9]

Kant did not believe it was necessarily wrong to pay special attention to our family or friends. However, if the attention is so excessive that one is never or hardly ever benevolent to others, then the preferred attention has gone too far. Kant's position is fairly consistent with other ethicists from traditions other than deontology. For example, Peter Singer has argued that those in rich countries have paid too much attention to family and friends at the expense of obligations to the poor in faraway places. Although Singer arguably demands too much of us, his point is well taken. What Kantian ethics seems to require is a balance between the benevolence extended to family and friends and the benevolence we owe impartially to all human beings. However, so long as our special attention to family and friends does not violate the categorical imperative, it is morally permissible. When we wonder if we are carrying friendship too far, the categorical imperative provides the test. Can a maxim of partiality be universalized? If my maxim is "Some of my benevolence can be directed to those with whom I am in a special relationship," that maxim does seem capable of passing the universality test. Thus neither Kant himself nor Kant as interpreted by contemporary Kant scholars thinks that there is no moral difference between family and friends on one hand and strangers on the other.

Two business ethicists, Jeffery Smith and Wim Dubbink, have considered several of the objections to the use of principles, especially Kantian principles, in business ethics. It is useful to include their analysis here because it explicitly addresses a number of the most common criticisms of Kantian ethics. Smith and Dubbink point out that the categorical imperative is designed to tell people how in general they should live. A lengthy quotation will help us understand the point they are making:

> Thus, in the first, or "universal law" formulation of the Categorical Imperative one is asked to imagine what general "maxims" can be reasonably be "willed" a universal practical law, suggesting that she assess her conduct in light of it becoming a principled way of living that others also accept. A less obvious but parallel move regarding what one can possibly will as an agent is made in the second or "humanity" formula of the Categorical Imperative. The claim that one ought not treat the humanity of persons as a mere means, but as an "end in itself" requires her to think generally about how other humans should and should not be treated.[10]

This way of looking at the categorical imperative and the general maxims that this imperative tests is consistent with my earlier contention that there are many maxims that can pass the CI tests and that which maxim is most appropriate depends on the specifics of the situation under discussion. I used this approach in the first edition in Chapters 2 and 3 when I did not realize it, and I use it explicitly in this edition.

Another strength of Smith and Dubbink's way of understanding principles is that it explains the role of generalization in Kantian ethics. "If one conceives of moral principles as general prescriptions regarding what can and cannot be willed by rational agents, then it is natural to separate the contingent features of an agent's identity from those that are inescapably tied to her rationality as such."[11] The role of generalization is not the direct application of principles to situations. The role of generalization is to guide ethical decision making.

I agree with Smith and Dubbink that in Kantian ethics there is an important distinction between justification and application. As I argue in Chapter 4, I have never liked talking about the motive of duty, because there is a tendency in our time to psychologize Kant. The categorical imperative is a means of justifying the maxims on which we act or of justifying our refusal to act on certain maxims because they are in violation of the CI and thus cannot be justified.

Of course, principles are applied in Kantian ethics, but I agree with Smith and Dubbink that Kant "focuses on the need for application rather than on what applicative judgments should be made."[12] When principles are applied, Kant certainly recognizes that judgment is involved and that the circumstances surrounding the application must be taken into account.

But does this emphasis on judgment in application create another problem – what Smith and Dubbink describe as a set of indeterminacy objections? The indeterminacy objection can be characterized as follows:

> [P]rinciple-based, or principle led, forms of moral judgment are inchoate guides for determining what one ought to do in particular cases. Principles are incomplete statements of generalized moral commitment and therefore provide little practical guidance when agents are confronted with complicated problems in new (possible unforeseen) circumstances.[13]

In contemporary meta-ethics, indeterminacy is the challenge that the particularists like Dancy and McDowell make against principle-based ethics.[14] It seems to me that the most straightforward response to Dancy and McDowell is to show that in fact, principle-based ethics, when properly understood, can serve as a practical guide to conduct. If treating people as ends rather than means merely is seen as a principle about how to live and act, then it does guide conduct and it is rather easy empirically to see who is acting according to that principle and who is not. It is also relatively easy to distinguish corporations where the managers act according to Kantian principles and corporations where managers do not act according to those principles. Organizational behaviorists empirically study differences in corporate culture. The particularist critique only has bite when "principles" are understood in a narrow way.

The other major set of objections, which Smith and Dubbink refer to as "The Generalization Objection," is characterized in this way:

> It has been argued that moral principles do not exist because they are based on a faulty understanding of how agents *reason* about moral problems.... If moral concerns are related to action and action is always embedded within context, then how can a principle be abstracted from a particular action context and remain something with independent moral force? How can one, in other words, establish the generalizable validity of a prescription as opposed to the validity of particular prescriptions?[15]

Once again, this objection, or a set of objections that constitute it, is based on a misunderstanding of how generalization in ethics functions. I can illustrate this with one of Smith and Dubbink's examples. Consider the principle, "One ought not deceive others when fidelity is expected." In maintaining this general principle, principle-based ethicists like Kant can claim it is universal. It is always relevant when situations arise where deception is contemplated or possible. However, in saying the principle is relevant, one is not saying that it can never be overridden. But as Smith and Dubbink point out, it is the motive that determines whether an action is genuinely moral. It will never be the case that a person should be motivated to act deceptively, even if a situation exists where non-deception is not the correct moral choice. "An action that is characterized by deception motivated to undermine fidelity will always serve as a reason against that action."[16]

The use of principles in ethics, contrary to the view of the particularists, is essential in ethical reasoning. Consider a rich, highly textured, specific ethical situation: whether corporations like Apple should encrypt devices like i-Pads so that law enforcement cannot retrieve information stored there. Principles such as "Morality requires that the public be protected" and "Citizens have a right to privacy" enable us to pick out the morally salient features of the situation for ethical analysis and decision. And the most general principles of all, the three formulations of the categorical imperative, are the ultimate tests of any principle (maxim) for a proposed action. Given the advantages that principles provide in ethical discourse, it is no surprise that principles have played such an important role in ethical reasoning throughout history. Contrast the success of principled reasoning in ethics with situational ethics from the 1970s.

It is interesting that the Golden Rule and some kind of respect for persons principle have been the foundational principles of ethics for most of historical time and across cultures. What Kant did was develop a more adequate universalization principle than the Golden Rule, but there is surely a family resemblance between the first formulation of the categorical imperative and the Golden Rule. Arguably Kant's formulation of the respect for person's principle is at the center of the contemporary public's understanding of ethical theory. These principles have proved useful both in ethical decision-making and, even more importantly, in justifying certain actions or in condemning other actions as unethical.

A long-standing criticism of Kant's first formulation of the categorical imperative is that at best it is difficult to determine the appropriate maxim for an action, and at worst that a person who wishes to justify a putatively immoral action could formulate the maxim so that the putatively immoral action would successfully pass the test of the categorical imperative.

Some have expanded "the difficulty in formulating the principle" objection to argue that Kant's philosophy would never convince a person who was determined to be immoral to do the right thing. That misunderstanding should be cleared up immediately. First, there is no indication that Kant's categorical imperative was designed to provide an argument against those who wanted to do the wrong thing and were simply looking for a maxim that would provide a justification for their actions.[17] Kant's moral theory was never meant to persuade a person who wanted to be unethical to be ethical. Kant's ethical theory is meant for those who want to do the right thing but, in difficult cases, such as whether to commit suicide when one is toward the end of life and in great pain, do not know naturally what is the right thing to do. As I said earlier, the point of Kant's use of hard cases is based on the assumption that people know the right thing to do in easy cases but need moral guidance in difficult cases. The categorical imperative is the test that provides that guidance.

The question as to why one should be moral at all was not at the forefront of Kant's thought. However, there is an easy Kantian answer to that question. To want to be immoral is to want to be irrational, and to want to be irrational is to deny freedom itself.[18] For Kant, human beings are positively free when they act on maxims that can hold for all in similar circumstances. The claim that a principle holds for all others in similar circumstances is a rational principle, and the categorical imperative is the formal statement of that principle in the moral life. To act against the categorical imperative is thus to act irrationally and unfreely.

With that objection out of the way, let us return to the more taxing issue about how to formulate the correct maxim to test against the categorical imperative. It is important that the issues around the appropriate formulation of the maxim for an action be clarified in a way that is defensible. Nearly all the major commentators of Kant's ethics have addressed this problem and proposed a solution or solutions. The commentators considered here are representative rather than exhaustive.

Allen Wood's approach is somewhat oblique because the main point of his analysis is the role that exceptions to rules play in Kant's ethical theory. Wood thinks that many of the counterexamples to various rules against lying and deception, for example, are really attempts by people to avoid the demands of morality. People have a tendency to want to make exceptions for themselves.[19] I would put Wood's point by saying that people who want to avoid the demands of morality deliberately try to formulate the maxim in such a way as to allow them to do so. As I emphasized earlier, Kantian ethics is for those who want help in doing the right thing and is not designed to keep people with unethical motives from doing the wrong thing.

Wood's positive approach to this issue of exceptions to rules and to problems in formulating the correct maxims is to insist that in such matters an element of judgment is always involved:

> For Kant, the act of relating a general concept or rule to particular instances is a capacity necessarily distinct from the capacity to formulate or criticize the rules themselves. Judgment is a talent that may be developed and sharpened by experience but can never be formulated or taught through general rules. One of the principal tasks of "general anthropology" for Kant is to help us exercise "the power of judgment sharpened by experience" in "distinguishing in what cases the moral laws are applicable." And the general purpose of the casuistical questions is to form a "practice of how to seek truth" in the course of this task of application.[20]

As we will see, this general line of thinking is taken up by other contemporary commentators on Kant's ethics. The first significant point to emphasize is that Kant's ethical theory is not simply about rules, whether they be the three formulations of the categorical imperative or of the maxims that are tested against them. Determining the appropriate maxim is not done by applying other rules. It involves moral judgment.

The role of moral judgment in the formulation of appropriate maxims is a central feature of Barbara Herman's Kantian ethics. Herman makes a number of important points regarding maxim formulation. First, rules of relevance are necessary to determine which facts it is legitimate to include in a maxim. Herman refers to these rules as rules of moral salience.[21] Herman describes these rules of moral salience as follows:

> Acquired as elements in a moral education, they structure an agent's perception of his situation so that what he perceives is a world with moral features.

They enable him to pick out those elements of his circumstances or of his proposed action that requires moral attention.[22]

Moral education is crucial for both Wood and Herman. Of course, education takes place within a broader cultural framework. Do rules of moral salience depend pretty much on one's culture, and if so, doesn't that introduce unwarranted relativism into Kantian ethics? Herman is clear in stating that "not just any set of rules a culture might teach would count as rules of moral salience."[23] Rules of moral salience are community based, but they are based on what would be determined by the community of rational agents as constrained by moral law. A full discussion of Herman's theory is beyond the scope of this book. However, one quotation may give the flavor of what she has in mind:

> I think of RMS [rules of moral salience] as an interpretation, in rule form, of the respect for persons (as ends-in-themselves) which is the object of the Moral Law. Their function is to guide in the recognition of those areas where the fact that persons are moral persons ought to instruct agents' deliberations and actions.[24]

Not every reader will find these attempts to settle the question of how to determine the appropriate maxim for action to be satisfactory, but surely attempts like those of Wood and Herman have eliminated some of the most egregious misunderstandings of Kant and have gone some way toward answering the question.

With Wood and Herman as a foundation, formulating the proper maxim in a business context may be somewhat easier than it is in general practice. It is assumed that engaging in business activity is activity voluntarily entered into.[25] Business practice is governed by explicit and implicit rules and norms. Thus, a person who signs a contract is voluntarily participating in an activity governed by those rules. If one should consider whether it is morally permissible to enter into a contract with the intention of violating it, the maxim is obvious. The maxim would be that one can enter a contract with the intention of violating it and that a maxim, when universalized, would destroy the institution of contract-making. Are there any exceptions? Not to entering a contract with the intention of breaking it. That is absolute. But contracts are made under certain assumptions. Sometimes extraordinary events intervene so that honoring the contract is either impossible or extremely difficult. Is it morally permissible to violate contracts under those extraneous circumstances? The answer to that question looks to the institution of contract-making. In point of fact it is understood within that tradition that such circumstances do arise, and in those circumstances the contract terms should be modified. The practice of contract-making in essence tells the participants whether a particular norm providing for an exception to the general principle, “honor your contracts,” is a legitimate exception. There certainly are ambiguities about what is required in the practice of contract-making, and to that extent there may be ambiguity about forming the appropriate maxim. However, that is more a difficulty about the practice of contract-making than it is a difficulty about the formation of appropriate maxims.

Notice how my account of dealing with maxim determination in business is consistent with the contemporary understandings of Kantian ethics as it applies rules to situations. There are general rules that are universal, but the community of businesspeople as embodied in business practice and business law provides the rules of moral salience. In Chapter 3 I consider the business community as a Kingdom of Ends and in so doing be consistent with Herman’s views that the rules of moral salience are embodiments of the respect for persons formulation of the categorical imperative.

The Challenge of Behavioral Ethics

The more recent challenge to Kantian ethical theory, and indeed to all philosophical ethics, comes from behavioral ethics. In a paper appearing in the *Journal of Management* in 2006, Trevino, Weaver, and Reynolds defined behavioral ethics as the study of “individual behavior that is subject to or judged according to generally accepted norms of behavior.”[26] That definition was adopted by the editors of a special issue of *Business Ethics Quarterly* (BEQ) on behavioral ethics in 2010. Although I shall return to this commonly accepted definition shortly, the definition as it stands does not give sufficient information as to what constitutes behavioral ethics.

In the BEQ special issue each of the six articles was seen as addressing one of three themes: the concept of moral awareness, ethical decision-making, and how individuals respond once unethical behavior occurs.[27] Of special interest here are the behavioral experiments related to ethical decision-making. Indeed, for my purposes I will look at behavioral ethics as the study of how people actually make ethical decisions. The results of those studies show that people do not make ethical decisions by thinking about them, by applying rules to behavior. Ethical decision-making is usually not rational. People especially do not make ethical decisions by formulating maxims of action and then seeing whether those maxims pass the categorical imperative test.

Many behavioral ethicists then use these results to argue that philosophical ethics or ethical theorizing is useless. Teaching business students the basics of the classic ethical theories such as virtue theory, utilitarianism, and Kantianism will not improve ethical decision-making in business. And if proof beyond the actual experiments is needed, one need only look at the fact that despite all the teaching of ethics in business schools, unethical behavior in business continues unabated.

Two of the leaders in behavioral ethics, Max H. Bazerman and Ann E. Tenbrunsel, put it this way in their book, *Blind Spots, Why We Fail to Do What's Right and What to Do About It*:

> Traditional approaches to ethics, and the traditional training methods that have accompanied such approaches, lack an understanding of the unintentional yet predictable cognitive patterns that result in unethical behavior. By contrast, our research on *bounded ethicality* focuses on the psychological processes that lead even good people to engage in ethically questionable behavior that contradicts their own preferred ethics. Bounded ethicality comes into play when individuals make decisions that harm others and when that harm is inconsistent with these decision-makers' conscious beliefs and preferences. If ethics training is to actually change and improve ethical decision-making, it needs to incorporate behavioral ethics, and specifically the subtle ways in which our ethics are bounded. Such an approach entails an understanding of the different ways our minds can approach ethical dilemmas and the different modes of decision-making that result.[28]

The findings of behavioral economics are interesting and certainly should not be ignored by philosophers. If the traditional philosopher's goal is to help individuals make good ethical choices, and psychologists show that psychological biases and unconscious or semiconscious processes get in the way, then we do need to deal with those biases and processes if our goal is to be achieved. In our teaching and training we may need to start with behavioral ethics. In other words, the relevant findings of behavioral ethics should be a part of every business ethics course, unless there are multiple business ethics courses, where one would focus on behavioral ethics and the other on traditional philosophical normative ethics.

However, the leap from how people behave to the uselessness of philosophical ethics in general and Kantian ethics in particular is not warranted. As a starter let's put the behavioral ethics challenge into historical perspective. Discoveries in psychology have challenged ethical theory before. In the eighteenth and nineteenth centuries there were ethical theorists who adopted quasi-psychological theories such as sympathy to explain how people make ethical decisions. Adam Smith held such a view, as did Francis Hutcheson, among many others.[29] More recently a group of situationalists in philosophy such as John Doris, Gilbert Harmon, and Maria Merritt have discussed the implications of psychological findings that people do not have consistent dispositions.[30] These findings show that we cannot say that people are courageous overall, but that they are courageous in certain situations but not in others. What is especially surprising is that experimental evidence shows that relatively minor situations such as finding a dime or being in a hurry can affect the willingness to help others.[31] Although the situationalists do not think these findings require a radical revision in moral theory, I agree with Jason D'Cruz who believes these findings do present a challenge to virtue theorists starting with Aristotle who believe that traits of character (virtues) are stable.[32] It is interesting that virtue theorists in business ethics, many of whom are vocal critics of Kantianism, have ignored the challenge presented by these situationalists.

However, our concern is with Kant. Behavioral ethics does not pose as great a challenge to Kantian ethics as it might to some other ethical theories such as utilitarianism, for example. Recall that Kant thought the categorical imperative technique was to be used as the default for making ethical decisions. Most of the time we knew what was the right thing to do and we did it. Rather, the categorical imperative was designed for difficult decisions when determining what was right was difficult. That is clear when one considers the examples in the *Groundwork*. Of course, Kant was unaware of many of the factors that psychologists show affect ethical decision-making. One would hope that psychology had made some progress since the eighteenth century. However, there is one psychological insight that Kant was well aware of: we have a tendency to make an exception of ourselves in moral deliberation. The most that the behaviorists have shown is that we may not use normative theory including the categorical imperative as often as previously thought.

However, we do on occasion deliberate as to what is the right thing to do. This should come as no surprise in a world where there is such a plurality of opinions as to what is ethically appropriate behavior and what is not ethically appropriate behavior. The fact that people do not always or even often use ethical reasoning in making ethical decisions does not mean that such reasoning is useless. What behavioral ethics ignores are issues of justification. And this is not just an oversight. Behaviorists cannot offer a theory of justification because the psychological causes of a decision are different from the justification of a decision. This is implicitly recognized in the Trevino, Weaver, and Reynolds's definition that is commonly recognized as the basis for the BEQ special issue. To repeat, behavioral ethics is the study of "individual behavior that is subject to or judged according to generally accepted norms of behavior." Generally accepted norms of behavior are taken as the starting point. But are such generally accepted norms morally right? The behaviorists cannot answer that question. That is the job for moral philosophy.

Behavioral ethicists start off with certain assumptions about what is right or wrong. In their book, Brazerman and Tenbrunsel speak of troubling decisions such as Enron, cooking the books, going to war in Iraq, and making loans to indigent borrowers and passing the risk off to others.[33] The authors seem to think these decisions were wrong or at least morally troubling. But why? The authors never say. Saying why something is wrong is the job of the normative philosopher, and that is what ethical theory in general and Kantian ethics in particular are about. Indeed, the authors believe that the value of their work is to point out the hidden processes and biases that interfere with or even prevent people from doing the right thing. Once those hidden processes and biases are known, presumably they can be counteracted. You can see that in the subtitle of the book. But how do we know what the right thing is? Bounded ethicality will not determine whether the war in Iraq was right or wrong. Knowledge about the biases that affect ethical decision-making will help us avoid making ethical errors, but that knowledge does not tell us what is right or wrong.

Even when people act inappropriately due to bounded ethicality, we need to show why the act was inappropriate. After all, once an ethical decision is made, one can always ask whether the decision was justified. Insights into how people behave are of limited value as to whether their behavior is justified. (The major exception here is any findings that people cannot act in a certain way. If they cannot act differently, that means we cannot morally require they act in that way. Ought implies can, as the saying goes.)

We have long known that human beings have a desire to seek revenge when they perceive that they have been treated wrongly, and we also know that a number of those people will act on their desire for revenge. But political philosophers like Hobbes and Locke have argued that we need institutions such as the state to control this desire for individual revenge. This is a classic case where people use institutions to control how they would behave.

Of course, ethical theory and ethical reasoning are not institutional control. But ethical theory and ethical reasoning provide a vehicle for judging whether people behave ethically and, where necessary, for criticizing that behavior and urging that the behavior be changed. Ethical theory and ethical reasoning have provided a role, although not the only role, in changing human behavior regarding slavery, the treatment of women, and the treatment of animals. The fundamental idea here is that once people know how people behave, we can figure out how to change it if change is what is morally warranted. What ethical theory provides are grounds for determining what is morally warranted.

Kant's ethical theory provides a basis for evaluating behavior, as we see in this chapter in the use of the first formulation of the categorical imperative for evaluating the maxims of behavior. The consistency test of the categorical imperative provides a means for evaluation. Thus Kantian ethical theory is extremely valuable as a means for justification and has nothing to fear from the work of behavioral ethics. Indeed, insights into how people behave should provide grist for the Kantian ethical mill. Such psychological knowledge just might indicate that more so-called ethical behavior might require more justification than previously thought. That would come as no surprise to Kant.

Extending the Reach of the Categorical Imperative: Pragmatically Inconsistent Maxims

So far our discussion has assumed that the proper way to interpret the universalizability formulation of the categorical imperative is that if the maxim for an action is self-contradictory, then the action would be morally wrong. However, contemporary scholars, and apparently even Kant himself, recognize that self-contradiction is not sufficient to do all the work that Kant wants the categorical imperative to do. One can see this when one notices that at least two, if not three, of the examples of prohibited actions in the *Foundations of the Metaphysics of Morals* are not based on maxims that are self-contradictory. In addition to the shopkeeper example, there are three other examples: suicide is prohibited; we have a duty of beneficence to help others; and we have a duty to develop our talents. But what is self-contradictory about a maxim that states that one is under no obligation to help others, or a maxim that states that one need not develop one's talents?

To answer this question, we need to consider the notion of pragmatic contradiction as well as logical contradiction. Commentators agree that Kant recognized two senses of contradiction. Kant said:

> We must be able to will that a maxim of our action become a universal law; this is the canon of the moral estimation of our action generally. Some actions are of such a nature that their maxim cannot even be *thought* as a universal law of nature without contradiction, far from it being possible that one could will that it should be such. In others, this internal impossibility is not found, though it is still impossible to *will* that the maxim should be raised to the universality of a law of nature, because such a will would contradiction itself.[34]

According to Christine Korsgaard, we can distinguish between logical (conceptual) contradiction and pragmatic contradiction. On the logical interpretation, a self-contradictory universalized maxim is one that proposes an inconceivable action or policy. On the pragmatic interpretation, a contradictory maxim is one that proposes an action that would be inconsistent with your purpose if everyone acted on it.[35] Korsgaard applies the pragmatic interpretation to two of the *Groundwork* examples as follows:

> If a thwarted purpose is a practical contradiction, we must understand the contradiction in the will test in this way: we must find some purpose or purposes which belong essentially to the will, and in the world where maxims that fail these tests are universal law, these essential purposes will be thwarted, because the means of achieving them will be unavailable. Examples of purposes that might be thought to be essential to the will are its general effectiveness in the pursuit of its ends, and its freedom to adopt and pursue new ends. The arguments for self-development and mutual aid will then be that

without the development of human talents and powers, and the resources of mutual cooperation, the will's effectiveness and freedom will be thwarted.[36]

Although Korsgaard believes that all of Kant's examples are amenable to a pragmatic contradiction interpretation, Kant probably did not see it this way. Kant distinguished between perfect duties and imperfect duties. As a matter of clarification, perfect duties are duties we are always bound to fulfill, whereas imperfect duties are duties we always have and need to fulfill on some occasions but not on all occasions.[37] Thus we must never lie, but we need not always act with beneficence to others. The contradiction involved in violation of perfect duties involves a conceptual contradiction, or seems to. A universalized deceitful promise is a conceptual absurdity. So is a maxim to steal in a property-owning society. However, a universalized maxim not to develop one's talents involves a contradiction in one's will. A commitment not to help others or develop our talents will involve a contradiction in our will because such a commitment would not allow us to achieve other goals to which we are committed – especially our own happiness. Thus, violations of maxims for imperfect duties involve not a contradiction in the maxim itself, but a contradiction in the will of the one who holds the maxim.[38]

The notion of a pragmatic contradiction is very useful in business ethics, as we shall see. Korsgaard explains a pragmatic contradiction as follows:

The test is carried out by imagining, in effect, that the action you propose to perform in carrying out your purpose is the standard procedure for carrying out that purpose. What the test shows to be forbidden are just those actions whose efficacy in achieving their purposes depends upon their being exceptional … For instance, in the false promising case, the difficulty is that the man's end-getting the money-cannot be achieved by his means-making a false promise-in the world of the universalized maxim. The efficacy of the false promise as a means of securing money depends on the fact that not everyone uses promises that way.[39]

Since we are discussing money here, I should mention an application of Kant's universalizability formulation of the categorical imperative to some important issues in finance. Tobey K. Scharding examined the ethics of investing in certain kinds of risky financial instruments. She uses the categorical imperative to distinguish those risky investments that are imprudent from those that are immoral. Scharding argues that "investment practices are imprudent when they do not take adequate precautions to secure the long-term flourishing of the firm," but they "are immoral in a Kantian sense when they risk the destruction of the financial system upon which the firms depend."[40] These kinds of investments, or the maxim that permits them, involve a contradiction in the will.

Why Neither Being Trustworthy Nor Not Trusting in Business Involves a Pragmatic Contradiction

Management theorists have discovered trust because trust is now seen as an important ingredient for competitive success. Management theorists seem to be endorsing the following hypothetical imperative:

> If one wants to achieve profitability in one's business, then one must establish trust with one's various corporate stakeholders.

What we need to do is transform a prudential argument for trust into an ethical obligation required by the categorical imperative. Can an argument from management theory be cast in a new light so that trust is required of business as a moral obligation? What needs to be shown is that business practice requires trust, so that one who acts in ways that violate trust or make trust on the part of others impossible is pragmatically (volitionally) inconsistent. With respect to showing the inconsistency, Korsgaard is once again instructive:

> We must find some purpose or purposes which belong essentially to the will, and in the world where maxims that fail these tests are universal law, these essential purposes will be thwarted, because the means of achieving them will be unavailable.[41]

Korsgaard's insight here can be helpful as we transform the prudential argument for trust into a categorical imperative. Eventually I will argue that trust is essential in most business relationships if business is to achieve its ends. But first the prudential end of profit-making must be seen as an ethical obligation. The first step is to claim that

1. A manager has a contractual obligation to manage the firm in the best interests of the corporation.
2. A manager can manage the firm in the best interests of the corporation only if she builds trusts among the corporate stakeholders.
3. Therefore, a manager has an obligation to build trust among the corporate stakeholders.

The first statement is a normative claim regarding the obligation of managers. To this normative claim you add a factual statement regarding how managers manage in the best interests of the corporation. Since the manager has made a promise (has a contractual obligation) to manage in the best interest of the corporation, and since building trusting relationships among the corporate stakeholders is necessary to fulfill that promise, then a manager has a moral obligation and not merely a prudential one for building those trusting relationships. The normative claim is widely accepted, although what counts as the interests of the corporation varies as to whether one holds to a traditional stockholder finance model of the firm or to a more contemporary stakeholder theory. More will be said about the content of this obligation from a Kantian perspective as the book progresses. However, in the context of American business law and practice, I take for granted the acceptance of the normative premise.

To establish the factual premise, we need to show that trust is essential to business practice, so essential that a universalized maxim that undermines trust can be shown to be pragmatically (volitionally) self-defeating. Following Korsgaard, I seek to show that actions that violate trust are inconsistent with the essential purposes of business. In other words, in the absence of trust, business as we know it would be impossible.

The conceptual argument here is well established. Kenneth Boulding succinctly stated the argument nearly fifty years ago when he said that "without an integrated framework, exchange itself cannot develop, because exchange, even in its most primitive form, involves trust and credibility."[42] We can illustrate Boulding's point by looking at a simple case of cash-for-product transfer. In almost all such cases, either the purchaser receives the goods before paying for them or the purchaser pays before receiving the goods. Seldom is the transfer simultaneous. If trust does not exist on both sides, the transfer of cash for product will not take place. The general argument remains generally true even with the advent of electronic payments. Thus, trust is essential for even the most basic business transaction to take place.[43]

Let us now move from a simple cash-for-product transfer to more complicated business transactions. Francis Fukuyama provides another argument to show that trust is essential in business:

> It is perhaps easier to appreciate the economic value of trust if we consider what a world devoid of trust would look like. If we had to approach every

contract with the assumption that our partners would try to cheat us if they could, then we would have to spend a considerable amount of time bulletproofing the document to make sure that there were no legal loopholes by which we could be taken advantage of. Contracts would be endlessly long, spelling out every possible contingency, and defining every possible obligation.[44]

In passing it should be noted that it is impossible to spell out every possible contingency or to define every possible obligation. What Fukuyama is drawing attention to is the transaction costs in doing business and pointing out that in the absence of trust, the transaction costs would become so high that commercial transactions as we know them would become prohibitively expensive.[45] There is some empirical evidence that supports Fukuyama's Kantian point. Discussions that began in the twentieth century continue today with respect to what doctors need to pay for liability insurance. Toward the end of the twentieth century the bond of trust between patients and doctors seemed to erode, and patients became more inclined to sue doctors for what they considered incompetent or inadequate treatment. This caused malpractice insurance policies to become more expensive. In fact, in some specialties their prices rose so high that some doctors in those specialties felt forced to give them up. If that trend continued, that particular medical specialty would cease to exist. To mitigate this trend, some states have passed laws limiting malpractice awards, and the debate about these laws and the cost of malpractice insurance continues.

We often complain about the high prices that are found in government procurement of goods and services. Fukuyama hypothesizes that lack of trust can explain the $800 toilet seats the government purchased. Here is the argument. Since many weapon systems are one-of-a-kind products, there are few suppliers. The prices are not driven by the market but are negotiated on a cost-plus basis. An alternative would allow government officials to use their discretion. However, since it is assumed that contractors are out to cheat the taxpayers and that officials are likely to abuse their freedom, lengthy detailed specifications are drawn up, with numerous auditors hired by both parties to ensure compliance. The result is $800 toilet seats.[46] Since Fukuyama published his book, trust in government has radically declined. The implications of this decline in trust are yet to be fully determined. Fukuyama's general point is that a lack of trust in business can reach the point where transaction costs in business become prohibitive.

As a Kantian, it is important to point out that Fukuyama's argument is not simply consequentialist. It is not simply the case that a lack of trust or decline in trust leads to bad consequences, although it does. Rather, Fukuyama's argument is a Kantian argument to the effect that a market to some extent rests on trust. As there is less and less trust, you reach a point where the necessity to use lawyers to write detailed contracts imposes transaction costs such that economic transactions do not resemble a market at all. Undermining trust undermines the market itself.

So far we have argued that maxims that undermine trust are pragmatically self-contradictory. But maxims that support trust can be morally required as well. The first step is to argue that trust provides a firm with a competitive advantage. Now, it is a "law" of economics that, other things being equal, a firm with a competitive advantage will triumph over its competitors. Or to put it another way, other things being equal, to adopt a maxim not to trust when trusting provides a competitive advantage is to undermine the survival of the firm. If trusting is necessary to the survival of the firm and protecting the survival of the firm is a contractual obligation for the manager, then the manager is obligated to support trusting relationships among the firm's stakeholders.

In a classic article, Bromiley and Cummings proposed seven hypotheses that linked trust to competitive advantage.[47] Bromiley and Cummings defined trust as keeping one's word and not taking advantage (behaving opportunistically) when one has the capability to do so. An investigation of some of these hypotheses will show how trust can provide a competitive advantage.

The first hypothesis is that increased levels of trust reduce transaction costs. In a trusting relationship we believe that those we trust will not take undue advantage of opportunistic situations. Given that belief, we will control and monitor those we trust less than those we do not. And in so doing the firm will save transaction costs. It costs more to deal with those we do not trust than to deal with those we do. As a firm considers strategic alliances, one of the most important characteristics that a potential partner should have is that it be trustworthy. No firm can afford to be exploited because another firm takes advantage or fails to live up to their end of the bargain.

Another Bromiley and Cummings hypothesis deals with the kinds of monitoring and control used in a trusting as compared to a non-trusting relationship – an issue of particular concern to those engaged in human resources management. According to Bromiley and Cummings, higher levels of trust should result in

1. Increased use of multiple and nonfinancial criteria for measuring performance and less use of detailed process controls and financial outcome measurement;
2. Lower frequency of evaluation, and evaluation with a mentoring direction rather than an evaluation and reward orientation;
3. Lower requirements for detailed process information, in both operational and project planning and monitoring.[48]

The essential point here is that trusting relationships change the nature of monitoring in a way that provides a competitive advantage. In non-trusting relationships, the supervisor functions as a policeman. In a trusting relationship, the supervisor functions as a mentor, the way a professor functions with a doctoral student. Such a mentoring relationship permits the use of qualitative data and reduces the frequency of evaluation and the amount of detail. All of this saves time and money.

For several years now business professors and enlightened managers have emphasized the importance of teamwork as a contributor to profit and ultimately to firm survival. A catchphrase here has been "worker empowerment." The idea behind "worker empowerment" is that employees should be given more responsibility and discretion in their work. If "teamwork" and "empowerment" are not to be empty phrases, the nature of supervision must be of a more mentoring type than a policing type. Greater trust will be a key element in any cost savings that result from eliminating layers of management and the empowerment of employee teams.

Some of Bromiley and Cummings's work indicates that trust might be required to make some profitable interactions possible *within* firms as well as *between* firms. For example, American manufacturing enterprises had traditionally suffered from two disadvantages. First, the engineering team that designs a product usually does its work separately. Those who manufacture the product usually have little if anything to say about the design. As a result, problems with a prototype do not appear until the manufacturing stage. Much time is lost as the prototype is redesigned to meet the requirements of mass production. In the twentieth century, Japanese automobile manufacturers did not separate the design function from manufacturing. This way of manufacturing, in addition to several other innovations, gave the Japanese an advantage in the marketplace. The result was an explosion in the American public's demand for Japanese automobiles. To see the competitive forces at work, it should be pointed out that the American automobile industry has made some changes in the same direction as a result of the success of Japanese automobiles in the marketplace – a success that depends in part of giving manufacturing more voice in the design process and reaping the cost savings that result.

Second, the incentive structure of many businesses encourages the sales department to sell as many of the product as possible; the commission system is what provides the sales incentive. However, if quality is to be maintained and backlogged orders are to be kept to a minimum, sales must not exceed the ability of the manufacturing process to produce. Given the commission system, however, there is no incentive for the sales staff to take these limitations into account and to cooperate with manufacturing to secure the optimal account of sales at any given time. Again, as a result of Japanese competition, these defects have been recognized, and American firms have realized that there must be greater cooperation among the units within the firm. In a business sense, such cooperation is essential. What Bromiley and Cummings hypothesize is that greater cooperation among units within the firm is positively associated with trust. As they say, "Within a corporation, joint projects will tend to arise between divisions where managers have high levels of trust in each other."[49]

What holds true with respect to trust within a firm will also hold true as various firms find it necessary to enter into joint ventures. However, to be a rational candidate for a joint venture the firm has to be one that is trustworthy. Bromiley and Cummings hypothesize that firms with a high level of trustworthiness will enter into more joint ventures. The rationale for this hypothesis is fairly clear. If one member of the joint venture fails to keep its end of the contract, behaves opportunistically, or provides a shoddy product, all in the joint venture will suffer. The customers will blame all alike. Thus, a trustworthy partner is the best partner in a business sense. Indeed, in this era of joint ventures, choosing a trustworthy partner may be one of the most important business decisions a business entity may make.

Most of the hypotheses that Bromiley and Cummings make concern the reductions in transaction costs that can result from increased trust. But the same points can be made without the transaction cost perspective. As Ed Soule has pointed out to me, trust is essential for the possibility of certain business transactions. In correspondence Soule pointed out that many business deals cannot be legally processed and must rely on trust. He cites cases of collaborative efforts where it is simply impossible to spell out all the rights and duties of the parties. Perhaps this point can be made most clearly by a discussion of virtual corporations.[50]

A virtual corporation is made up of constantly shifting members, and it is this constant change of members that differentiates the virtual corporation from the traditional strategic alliance. With such flux, trust is even more essential than it is with the traditional strategic alliance. As business commentator Charles Handy has said, "Trust is the heart of the matter …. Virtuality requires trust to make it work. Technology on its own is not enough."[51]

As economists have noted, trust can be calculative. Each side trusts the other because it pays to do so, and since each side will interact many times in the future, there is good reason for each side to trust the other. But such trust is not rational in the virtual corporation because there is no guarantee of future contact. Sociologists argue that trust often develops as a social norm as people work together, but again that kind of trust will not work in the virtual corporation because there is no opportunity for stable norms of interaction to develop. Thus, the trust needed as a glue in the virtual corporation is the kind of trust associated with commitment. Two strategy researchers describe the kind of trust needed as "hard-core trust":

> Hard-core trustworthy exchange partners are trustworthy, independent of whether or not exchange vulnerabilities exist and independent of whether or not governance mechanisms exist. Rather, hard-core trustworthy exchange partners are trustworthy because that is who, or what, they are …. Strong form trust does not emerge from the structure of the exchange, but rather reflects the values, principles, and standards that partners bring to the exchange.[52]

It is this hard-core trust that is genuinely ethically based, and it is this kind of trust that is absolutely required if virtual corporations are to survive.

Again, it is important to state that these arguments are not simply consequentialist. What I am trying to show is that certain management practices are essential to the survival of the firm. To adopt practices that are inconsistent with those practices essential to the survival of the firm involves a pragmatic contradiction. And since managers have a moral obligation to promote the welfare of the firm, practices that involve a pragmatic contradiction in the sense of undermining the survival of the firm are immoral.

Moreover, this discussion is not purely theoretical. One of the more long-standing examples of the strategic power of trust is presented by the 3M company. It is safe to say that innovation is the key to the success of 3M. To achieve its goal of 30 percent of its revenue from products that have been developed in the past three years, 3M must have a highly innovative culture. 3M has usually trusted its scientists and not tried to overmanage them. Scientists at 3M are allowed to spend 10 percent of their time on products or research that appeal to their personal interests. Can you imagine what would happen to morale and the culture of trust if management continually checked up on its scientists and asked, "What have you invented today," or worse, "What marketable product will result from your spending time on this project?" If management treated scientists as if they could not be trusted, innovation would be seriously damaged and 3M's central business strategy would be defeated through a self-inflicted blow.

Establishing trust early also can be one of the essential ingredients for success, according to S. D. Shibulal, cofounder and former CEO of Infosys. Infosys is an Indian company founded in 1982 with $250 in capital. How did it become one of the largest and most profitable companies in India? By building trust through transparency, particularly about business conditions. One of Infosys' principles of ethical corporate governance is the following: "To be transparent and maintain a high degree of disclosure levels. Our philosophy is captured in the now well known adage: when in doubt, disclose." Shibulal believes that this philosophy has provided Infosys with a competitive advantage.[53] Just as transparency made it possible for the development of the Russian stock market, so trust made possible the development of Infosys.

In summary, we have seen that being trusting and being trustworthy are characteristics that are essential in business transactions. To engage in activities that make one less trustworthy is to adopt a maxim that is pragmatically (volitionally) inconsistent.

Transition to Chapter 2

Thus far we have given an argument as to why certain actions, if taken in business, would be morally wrong. In general, we have focused on prohibitions, on "thou shalt nots," on negative prohibitions such as "don't lie," "don't cheat," and "don't undermine trust," However, when we move from evaluating the actions or practices of the managers of a firm to describing how managers ought to interact with the firm's stakeholders, the second formulation of the categorical imperative will serve especially well. Let us now turn to a discussion of stakeholder issues as we develop Kant's formulation of the principle that we are obligated to treat people with respect.

Notes

1 A. Carr, "Is Bluffing Ethical?" *Harvard Business Review*, 46 (1968), 145–46, 148.
2 Ibid.
3 This discussion enables me to dismiss a criticism of Kant based on a major misunderstanding of his work. Some have argued that Kant only thinks that one is moral if doing the right thing is hard. The examples of the *Groundwork* are cited as evidence. However, that is a misunderstanding. Kant uses examples such as whether one should commit suicide when one is painfully ill or whether one should make a promise with no intention to keep it when one is in desperate financial straits because he believes that nearly everyone would agree that, in general, a lying promise is wrong. Kant's argument works for the general case, but in the examples Kant is showing that his analysis works in the tough cases.
4 I. Kant, *Foundation of the Metaphysics of Morals*, 1785 L. W. Beck, Trans. (New York: Macmillan, 1990), 19.
5 Ibid., 38.
6 C. Korsgaard, *Creating the Kingdom of Ends* (Cambridge: Cambridge University Press, 1996), 85.
7 Ibid., 86.
8 N. Banerjee, "Russian Concerns Find Glasnost Pays-Corporate Openness Helps to Lure Foreign Investors," *Wall Street Journal*, June 9, 1995, A6.
9 I. Kant, *The Metaphysical Principles of Virtue*, 1797 in *Ethical Philosophy*, 2nd edition, J. W. Ellington, Trans. (Indianapolis: Hackett Publishing, 1994).
10 J. Smith and W. Dubbink, "Understanding the Role of Principles in Business Ethics," *Business Ethics Quarterly*, 21 (2011), 209.

11 Ibid., 209.
12 Ibid., 210.
13 Ibid., 207.
14 See for example, J. Dancy, *Ethics without Principles* (New York: Oxford University Press, 2004) and J. McDowell, "Virtue and Reason," *The Monist*, 62 (1979): 331–50.
15 J. Smith and W. Dubbink, "Understanding the Role of Principles in Business Ethics," 207, 213.
16 Ibid., 214–15.
17 For my part, I question whether any ethical theory is or should be designed to speak to the person who wishes to behave immorally and is simply looking for a justification for doing so. The point of an ethical theory is to provide a framework for behaving ethically. How one responds to the challenging question, "Why be Moral?" is a question that goes back to Plato but in the mid-twentieth century was a major topic of conversation. However, the "Why be Moral" question was always considered a question of meta-ethics.
18 Christine Korsgaard has made this point with respect to someone choosing self-love over morality. See *Creating the Kingdom of Ends*, 167.
19 A. Wood, *Kantian Ethics* (Cambridge: Cambridge University Press, 2008) 250–51.
20 Ibid., 64.
21 B. Herman, *The Practice of Moral Judgment* (Cambridge, MA: Harvard University Press, 1993), 77.
22 Ibid.
23 Ibid., 83.
24 Ibid., 86.
25 Since most people need to work in order to eat, some have challenged this assumption. That discussion is beyond the scope of this book.
26 L. K. Trevino, G. R. Weaver, and S. J. Reynolds, "Behavioral Ethics in Organizations: A Review," *Journal of Management*, 32 (2006), 952.
27 D. De Cremer, D. M. Mayer, and M. Schminke, "On Understanding Ethical Behavior and Decision Making: A Behavioral Ethics Approach," *Business Ethics Quarterly*, 20 (2010): 3–4.
28 M. H. Bazerman and A. E. Tenbrunsel, *Blind Spots: Why We Fail to Do What's Right and What to Do About It* (Princeton, NJ: Princeton University Press, 2011), chapter 1.
29 A. Smith, *A Theory of Moral Sentiments*, 1759, and Francis Hutcheson, *A System of Moral Philosophy*, 1755.
30 J. Doris, *Lack of Character: Personality and Moral Behavior* (New York: Cambridge University Press, 2002); G. Harmon, "The Nonexistence of Character Traits," *Proceedings of the Aristotelian*

Society, 100 (2000): 223–26; M. Merritt, "Virtue Ethics and Situational Personality Psychology," *Ethical Theory and Moral Practice*, 3 (2000): 365–83.

31 A. Isen and P. Levin, "The Effects of Feeling Good on Helping: Cookies and Kindness," *Journal of Personality and Social Psychology*," 21 (1972): 384–88; J. Durley and D. Batson, "From Jerusalem to Jericho: A Study of Situational and Dispositional Variables in Helping Behavior," *Journal of Personality and Social Psychology*, 27 (1973): 100–08.

32 The position of the situationalists, some of the experimental evidence, and the revolutionary implications of this research on virtue ethics and on trust in particular is found in the new journal of the American Philosophical Association. See J. D'Cruz, "Trust, Trustworthiness, and the Moral Consequence of Consistency," *Journal of the American Philosophical Association*, 1 (2015): 467–84. D'Cruz is more focused on the implications of this research on trust, at least in this article. However, it seems that this research undermines virtue theory or at least requires that virtue theory be reconstituted in light of this research.

33 M. H. Bazerman and A. E. Tenbrunsel, *Blind Spots: Why We Fail to Do What's Right and What to Do About It*.

34 I. Kant, *Foundations of the Metaphysics of Morals*, 40–41.

35 C. Korsgaard, *Creating the Kingdom of Ends*, 78.

36 Ibid., 96–97. Korsgaard notes that there are three possible interpretations of "contradiction" available. As this quotation shows, Korsgaard thinks all the examples in the *Groundwork* can be adequately handled by the pragmatic interpretation.

37 Much more will be said about this distinction between perfect and imperfect duties in later chapters. This distinction will be useful as we analyze such business ethics issues as corporate social responsibility.

38 Onora O'Neill refers to a distinction between conceptual consistency and volitional consistency. See O. O'Neill *Constructions of Reason* (Cambridge: Cambridge University Press, 1989), 89.

39 C. Korsgaard, *Creating the Kingdom of Ends*, 92.

40 T. K. Scharding, "Imprudence and Immorality," *Business Ethics Quarterly*, 25 (2015): 243–65. Ethics in finance has been dominated by utilitarian approaches. Those interested in ethical issues in finance should read this uniquely Kantian approach that is directly relevant to issues raised by the financial crisis of 2008–09.

41 C. Korsgaard, *Creating the Kingdom of Ends*, 96.

42 K. E. Boulding, "The Basis of Value Judgments in Economics," in *Human Values and Economic Policy*, S. Hook (ed.) (New York: New York University Press, 1967), 68.

43 When the two parties to an economic transaction do not know each other well, and the project involves a large expenditure up front by one of the parties, that party may require a down payment, or that the person receiving the goods or services pay a percentage up front. This practice does not undermine the basic argument. The practice just means that trust is not complete due to the fact that the two parties are not well acquainted.
44 F. Fukuyama, *Trust* (New York: The Free Press, 1995), 152.
45 For an exceptionally well-worked-out theory of the benefits of trust in the firm, see D. M. Kreps, "Corporate Culture and Economic Theory," in J. E. Alt and K. A. Shepsle, *Perspectives on Positive Political Economy* (Cambridge: Cambridge University Press, 1990), 90–143.
46 F. Fukuyama, *Trust*, 153.
47 P. Bromiley and L. Cummings, "Transaction Costs in Organizations with Trust," in R. J. Bies, R. Lewicki, and B. Shepard (eds.), *Research on Negotiations in Organizations* (Bingley, UK: Emerald Group Publishing Limited, 1995), 219–47. Consideration of arguments pro and con regarding transaction cost economics and trust can be found in P. Bromiley and J. Harris, "Trust, Transaction Cost Economics, and Mechanisms," in R. Bachmann and A. Zaheer (eds.), *Handbook of Trust Research* (Cheltenham, UK, Edward Elgar, 2006), 124–43. This article also shows the impact of the original Bromiley and Cummings research. The *Handbook of Trust Research* provides a comprehensive array of articles in trust research as it existed in the middle of the first decade of the twenty-first century.
48 Ibid., 236.
49 Ibid., 238.
50 The following argument is adapted from T. M. Jones and N. E. Bowie, "Moral Hazards on the Road to the Virtual Corporation," *Business Ethics Quarterly*, 8 (1998): 273–92.
51 C. Handy, "Trust and the Virtual Corporation," *Harvard Business Review*, 73 (1995), 44.
52 J. B. Barney and M. B. Hansen, "Trustworthiness as a Source of Competitive Advantage," *Strategic Management Research Journal*, 5 (1994), 179.
53 S. D. Shibulal, "Ethical Corporate Governance as a Competitive Advantage," Bentley University Center for Business Ethics, 2014.

2 *Treating Stakeholders with Respect*

If the average person has a second moral principle to supplement the Golden Rule, it is probably a principle that says we should respect people. Just as the first formulation of the categorical imperative provided a more rigorous formulation of the Golden Rule, Kant's second formulation of the categorical imperative, "Always act so that you treat the humanity in a person, whether in your own person or in that of another, always as an end and never as a means only,"[1] is a more rigorous formulation of the principle that one should respect people.

Respecting people is thoroughly interwoven into the fabric of contemporary life. A "respect for persons" principle, like a "golden rule" principle, could claim the status of a universal moral principle. People demand respect, and when they don't feel respected, the results can be tragic, as we have seen. In the United States, there are numerous instances where people have been shot dead because they allegedly did not "respect" the shooter.

Moreover, there is no one in the business community who has challenged the respect-for-persons principle as a principle in business ethics the way Albert Carr challenged the application of the Golden Rule in business. Yet ironically, many of the moral criticisms of business practice are directed against policies that do not respect persons – for example, that business human relations policies often invade privacy or relegate people to dead-end jobs where they cannot grow professionally. In addition, there is considerable controversy, even among ethicists, as to what a respect-for-persons principle requires.

In this chapter I shall develop Kant's respect-for-persons principle and show the implications of that principle for business practice. I believe that if Kant's respect-for-persons principle were honored, business practice would look very different. Thus, the application of Kantian ethics here calls for a fairly radical reform of business practice. Nonetheless, I shall argue that such reform may actually enhance the bottom line, rather than hurt it as businesspeople often suppose.

I want to begin by describing a misunderstanding or misuse of the respect-for-persons principle. I recall from my undergraduate days in the early 1960s, when I first developed my interest in Kant, we addressed the issue of whether buying a product like vegetables in the supermarket violated the respect-for-persons requirement of the second formulation of the categorical imperative. In buying our groceries, did we use the clerk who in those days rang up our purchases on a cash register? Did we use the clerk as a means merely? First, we decided that we did not *merely* use people in business transactions because we could accomplish our goal – buying carrots or potatoes – and still show respect to those on the other end of the transactions. We could speak to them, wish them a good day, thank them for their service, and things like that. A casual observer in a supermarket can distinguish those patrons who treat the cashiers with respect from those who do not.

However, we wondered if all Kant's respect-for-persons principle required was that we be nice to people. Undergraduate economics courses provide an analysis of how a manager should treat the various factors of production. The most efficient manager is one that rearranges capital, land, machines, and workers so that their proportional marginal productivity is equal. The requirement of equal proportional marginal productivity works as follows: If the price of machines rises with respect to labor, substitute labor for machines until the marginal productivity of each is equal. If the price of labor rises with respect to machines, substitute machines for labor until the marginal productivity for both is equal. For the economists these substitutions are morally equivalent.

At first glance it looks as if a Kantian would say that the two substitutions are not morally equivalent. The first, substituting labor for machines, is morally permissible; the second, substituting machines for labor, is not morally permissible. In the latter case it looks as if the employees are used as a means merely for the enhancement of the profits of the stockholders. It is morally permissible to use machines that way, but it is not morally permissible to use people that way. Unlike the grocery store example, the managers who act on behalf of the stockholders – at least in publicly held corporations of any size – are not in a personal face-to-face relationship with the employees and thus cannot avoid the charge of merely using the employees by saying that in the transaction they treated the other party to the transaction with respect. It doesn't matter if managers were nice to the employees when they laid them off. Since some layoffs are handled in a degrading and cruel way, there is a moral distinction among various practices for laying people off. However, being enlightened rather than degrading and cruel does not get the enlightened managers off the moral hook completely. The real issue, under the respect-for-persons principle, is whether people can be fired at all just because labor becomes more expensive relative to machines. What would a Kantian using Kant's respect-for-persons principle, say about that? To answer that question, some explanation of Kant's respect-for-persons principle is in order.

The Respect-for-Persons Principle

Kant did not simply assert that human beings are entitled to respect; he has an elaborate argument for it. Human beings ought to be respected because human beings have dignity. For Kant, an object that has dignity is beyond price. That's what wrong with the principle that says a manager should adjust the inputs of production to the point where the marginal productivity of each is equal. And further, the denial of dignity is what makes much downsizing unjust. In these cases, that which is without price – human beings – are treated as simply exchangeable with that which has a price. Human employees have a dignity that machines and capital do not. Thus, it looks like managers cannot manage their corporate resources in the most efficient manner without violating the respect-for-persons principle. Whether that is the correct implication remains to be seen.

But first, why do persons possess a dignity that is beyond all price? They have dignity because human beings are capable of autonomy and thus are capable of self-governance. As autonomous beings capable of self-governance, they are also responsible beings, since autonomy and self-governance are conditions for responsibility. A person who is not autonomous and who is not capable of self-governance is not responsible. That's why little children or the mentally ill are not considered responsible beings. Thus, there is a conceptual link between being a human being, being an autonomous being, being capable of self-governance, and being a responsible being.

Autonomous responsible beings are capable of making and following their own laws; they are not simply subject to the causal laws of nature. Human beings are different from billiard balls. Anyone who recognizes that she is autonomous should recognize that she is responsible for her actions and thus she should recognize that that she is a moral being. From this Kant argues that the fact that one is a moral being enables us to say that such a being possesses dignity: "Morality is the condition under which alone a rational being can be an end in himself because only through it is it possible to be a lawgiving member in the realm of ends. Thus morality, and humanity, insofar as it is capable of morality, alone have dignity."[2] This emphasis on dignity and respect undercuts the notion that Kant's ethics is primarily an austere ethic of duty. As T. E. Hill puts it, "[For Kant] moral conduct is the practical exercise of the noble capacity to be rational and self-governing; a capacity which sets us apart from the lower animals and gives us dignity. Kant's ethics is as much an ethics of self-esteem as it is an ethics of duty."[3]

Now, as a point of logic, a person who recognizes that he or she is responsible and thus has dignity should ascribe dignity to other people who have the same capacity to be autonomous and responsible beings. As Kant says,

> Rational nature exists as an end in itself. Man necessarily thinks of his own existence in this way, and thus far it is a subjective principle of human actions. Also every rational being thinks of his existence on the same rational ground which holds also for myself; thus it is at the same time an objective principle from which, as a supreme practical ground, it must be possible to derive all laws of the will.[4]

This quotation provides Kant's argument for the necessity of including all other persons within the scope of the respect-for-persons principle (treating the humanity in a person as an end and never as a means only). The argument is based on consistency. What we say about ourselves we must say about similar cases, namely about other human beings.

Up to this time I have said nothing about the rational nature of human beings, although the concept appears in the quotation from Kant that I have cited. There is a temptation to overemphasize Kant's rationalism here. Kant's focus is on the person as moral agent. Freedom and the ability to make laws (as opposed to being simply subjected to causal laws) are necessary conditions for moral agency. Rationality is a result of our freedom and enables us to be moral beings; rationality allows us to act on laws we have made rather than being simply subjected to causal laws.

Thus, Kant is not a rationalist in the spirit of Descartes, Spinoza, or Leibniz. Rationalism is not a method to obtain truth about the world beyond sense experience. In the practical (moral) realm Kant clearly follows neither the deductive method of Spinoza nor the overly optimistic rationalism of Leibniz concerning the coincidence of virtue and happiness. Rather, for Kant, rationalism in the moral realm is the capacity to adopt maxims that pass the test of universality (the test of the first formulation of the categorical imperative). The ability to be rational in that sense is a necessary condition for moral agency. Kant begins the third section of the *Foundations* as follows:

> What else, then, can freedom of the will be but autonomy (the property of the will to be a law to itself). The proposition that the will is a law to itself in all its actions, however, only expresses the principle that we should act according to no other maxim than that which can also have itself as a universal law for its object. And this is just the formula of the categorical imperative and the principle of morality. Therefore a free will and a will under moral laws are identical.[5]

Freedom and the ability to make and follow our own laws are necessary and sufficient for moral agency. Moral agency is what gives people dignity. The importance of rationality comes when one explicates the meaning of freedom. Kant holds that freedom is more than independence from causal laws. Freedom from causal laws is negative freedom. But freedom is also the ability to make laws that are universal and to act on those laws in the world. This freedom is positive freedom. As Kant says,

> The sole principle of morality consists in independence from all material of the law (i.e. a desired object) and in the accompanying determination of choice by the mere form of giving universal law which a maxim must be capable of having. That independence, however, is freedom in the negative sense, while this intrinsic legislation of pure and thus practical reason is freedom in the positive sense.[6]

In commenting on Kant's views, Onora O'Neill shows how reason functions in the Kantian moral framework. She first establishes that negative freedom is not sufficient for a morally responsible being. A notion of positive freedom is required as well:

> Positive freedom is more than independence from alien causes. It would be absent in lawless or random changes, although these are negatively free,

since they depend on no alien causes. Since will is a mode of causality it cannot, if free at all, be merely negatively free, so it must work by non-alien causality….it [free will] must be a capacity for self-determination or autonomy.[7]

But how is self-determination possible from alien causality possible? When a person makes a law as the ground for his or her action, the basis for that lawmaking could either be inclination – such as concern with our happiness – or it could be from morality itself. But inclinations are from the world of sense and thus under the law of causality. Thus, if our legislation is based on inclination, we are not really free. As Christine Korsgaard says, "Morality is the natural condition of a free will. The free will that puts inclination above morality sacrifices its freedom for nothing."[8]

If inclination is not to be the basis of our actions, what then remains is the form of the moral law that is rationality itself. Any law that is freely derived must be rational in the sense that it is universal, that is, willed universally by all free moral beings. Rationality in Kant's moral philosophy amounts to the requirement that laws freely derived be capable of being willed universally. The fact that human beings in their capacity as free moral beings have this capability is a reason to accord them dignity. Thus, I agree with O'Neill when she says,

He [Kant] argues not from reason to autonomy but from autonomy to reason. Only autonomous self-disciplining beings can act on principles that we have grounds to call principles of reason … it [the categorical imperative] is the fundamental strategy not just of morality but of all activity that counts as reasoned. The supreme principle of reason is merely the principle of thinking and acting on principles that can (not do!) hold for all.[9]

We have shown why Kant believes persons have dignity. Thus, Kant has grounded our obligation to treat humanity in a person as an end and never as a means only. But, in a business context, what specific obligations follow from that general obligation and what is permitted under that general obligation? I follow contemporary scholarship in arguing that respect for persons requires two steps, and have divided this chapter accordingly. O'Neill puts it as follows:

The maxim must not use them (negatively) as mere means, but also (positively) treat them as ends-in-themselves. Kant describes the first sort of failure as action on maxims to which no other could possibly consent, and the second as pursuit of ends another could not share.[10]

After this lengthy discussion that provides justification for Kant's second formulation of the categorical imperative, we have the framework that can address the basic question of this chapter: How does the respect-for-persons principle apply in a corporate setting? In focusing on this question we will focus on the employer/employee relationship. We will use O'Neill's two tests to show how managers may honor the respect-for-persons principle in the workplace. The strategy for the remainder of the chapter is to spell out some of the implications of the negative test when applied to managing employees – that is, that they not be used. Of special interest will be the questions raised initially, namely the terms of the employment contract and the problems raised by firings and downsizing. I will then turn to the implications of the positive requirements. With respect to employees, providing meaningful work in a sense to be defined is a good way to honor the positive requirement that the manager should treat the humanity of employees as an end.

A full Kantian theory of the firm would spell out the negative and positive obligations under the respect-for-persons principle that managers have to all the corporate stakeholders. That would require another book. In my book *Management Ethics*[11] I do spell out various obligations that managers have to various stakeholders, including obligations that would be required by a respect-for-persons principle. However, in that work, I did not directly apply the Kantian framework. In this chapter, I choose a few obligations that managers have to stakeholders other than employees when these examples enlighten our discussion of the application of the respect-for-persons principle to business. In general, however, and for reasons to be given, Kant's respect-for-persons principle requires that no stakeholder should be coerced or deceived. With respect to customers, the non-deception requirement raises some extremely interesting questions regarding what counts as deception.

Not Using Employees: Neither Coercion Nor Deceit

The first step to respecting the humanity in a person requires that a person should not be used as a means only. With respect to business ethics, this means that a business relationship should be neither coerced nor deceptive. The general point against coercion and deception has been made by Korsgaard:

> According to the Formula of Humanity, coercion and deception are the most fundamental forms of wrongdoing to others-the roots of all evil. Coercion and deception violate the conditions of possible assent, and all actions which depend for their nature and efficacy on their coercive or deceptive character are ones that others cannot assent to.... Physical coercion treats someone's person as a tool; lying treats someone's reason as a tool. That is why Kant finds it so horrifying; it is a direct violation of autonomy.[12]

Kant's point about the immorality of coercion and deception is accepted by nearly all regardless of their political persuasion. Coercion and deception are a violation of one's negative freedom because they block a person from choosing ends she would have chosen had the coercion or deception not occurred.

Recall that this chapter began with a very simplified discussion of what it might mean to treat people with respect in a business relationship. Respect involves more than being nice to them. Are layoffs and the business practice of downsizing disrespectful of workers in ways that would violate Kant's principle of respect for the humanity in a person? It is tempting to argue that they do. But things are more complicated than they look at first glance.

Economic actions are considered free actions entered into voluntarily. If both parties are fully informed, then business transactions are neither coerced nor involve deception. They thus pass the two tests for negative freedom. Using the standard assumption that the employment relationship is a contractual one and further assuming that the employee has all the relevant knowledge regarding the relationship, one could argue that the employee has accepted the fact that if the price of machinery becomes cheaper compared to the price of labor, then he has agreed that the manager is morally permitted to substitute a machine for his labor. This is because one could say that employees know that they can be laid off if their labor becomes more expensive compared to machines. They accept the job knowing that, and thus there is a sense in which layoffs are something that has been agreed to. The employees are not used as a means merely because they have freely consented to the conditions of their employment. There is neither coercion nor deception, and thus the employees have not been used.

The claim that the layoffs are voluntary has been made by the economist Oliver Williamson, who argues that the risks of a layoff have been incorporated in the salary contract. Wages include a payment for the risk of layoffs.[13] Thus, someone following Williamson's reasoning could argue that not violating an employee's negative freedom – that is, not interfering with a person's choices – is sufficient to honor Kant's respect-for-persons principle.

Is the argument that employment contracts, especially contracts that permit massive layoffs, are voluntary agreements sound? Some might argue that few layoffs are voluntary economic transactions, because workers do not want to be laid off. A layoff, they argue, is not like an ordinary commercial transaction such as, for example, purchasing gasoline at a filling station. As an empirical matter, the response of the employees to the massive layoffs of downsizing counts against the theory that the layoffs are voluntary contracts freely entered into. The response of those laid off is hardly the response of one who has bought a lottery ticket and lost. Being laid off in downsizing is not like losing the lottery.

But should the feelings of the employees be determinate of the voluntariness of whether an action is coercive? Of course the employees do not want to be laid off, but they voluntarily accepted that risk nonetheless. But there is something – maybe several things – to this employee argument. First, an employee probably does implicitly accept a risk that she can be laid off. But there are background assumptions that limit the risk. For most of the twentieth century there was an assumption, especially in manufacturing, that if an individual was a skilled and loyal employee, he would have something close to lifetime employment. That assumption was undercut in the last quarter of the twentieth century. Conditions changed, and those changes impacted the employer/employee relationship so that job security was undermined. However, those changes were not changes that were voluntarily agreed to, especially by employees. Layoffs resulted from economic forces that were beyond the control of employees. They were changes in conditions, not in the contract.

One way to understand this shift is to focus on the institution of capitalism as it is currently practiced rather than on the specific transactions between an individual employee and the firm she works for. This approach has in fact been taken by Onora O'Neill:

What could be more paradigmatic of an offer that can be refused than an offer of employment that is, as they say in wage negotiations, "on the table"? If we argue that such offers are coercive or deceptive, we must take a broader view of maxims, and judge not the principles that particular would-be-employees have in mind but the principles that guide the institution of employment in a capitalist system. The underlying principle of capitalist employment, whatever that may be, might to be judged to use some as means or fail to treat them as persons, even where individuals' intentions fail in neither way.[14]

O'Neill's argument, and ones similar to it, presupposes that a coherent account can be given of the notion of institutional coercion. Whether a coherent account of institutional coercion can be provided is certainly controversial. Moreover, discussions of institutional coercion pose special challenges for Kantian ethics. Social scientists emphasize the importance of being clear about one's level of analysis. Issues in business ethics can occur at any one of the three levels, and some business ethics issues, such as the employer/employee relationship, can be discussed on all three levels. The key is to be clear as to what level you are working on. The three levels are the individual level, the organizational level, and the macroeconomic level. O'Neill's discussion, for example, of the institution of capitalism occurs at the macroeconomic level.

An issue for Kantian ethics is that it paradigmatically applies at the individual level. The humanity of a person is grounded in the dignity of individuals. In business, it applies well to how individual managers treat individual employees. But in a corporate setting the manager is the manager in a firm, in an organization. Can an organization treat a person as a means merely? It is one thing to say that a manager can treat a person disrespectfully, but quite another for an organization to do so. To talk in that way, one needs a Kantian theory of organizational action and responsibility. In Chapter 4, I will address this issue and try to determine how great a challenge a theory of organizational action presents to the Kantian project.

The problem is even more acute at the macroeconomic level when one talks of the coercive actions of the institution of capitalism itself. How can the institution of capitalism coerce? In the first edition of *Business Ethics: A Kantian Perspective*, I did not carefully distinguish among the individual, organizational, and macroeconomic levels of analysis, nor did I provide a Kantian account of organizational action. This issue is so important that it needs an extended analysis, but I do not want to take a detour into that discussion at this point. That comes later.

To continue this discussion of whether or not the employment contract is coercive, I will do the following. I will direct our attention to practices within capitalism and ask, with the help of some classic legal cases, whether or not these practices are coercive. For now I will ignore metaphysical issues of institutional causation and intentionality. I will then ask: What can individual managers do to offset the coercion of certain capitalist business practices? We could simply not talk about capitalist coercion or institutional coercion at all. We can, I think, look at standard instances of individual coercion and then argue that managers have a moral obligation not to institute coercive labor practices. In this way we keep the discussion at the individual level. My strategy is to point out that individuals within capitalism are not free to enter into an employment contract within a standard meaning of what it means for a person to be free. If we find that employees are less than free in the standard sense, we can then ask what practices can individual managers institute in business firms to make the standard employee contract more free in the traditional sense of "free," or what can individual managers do to offset the impact of institutional practices that limit the alternatives of employees as they negotiate labor contracts.

With this detour, the coercion argument could proceed as follows. For people without independent income, during one's productive years, there is hardly a choice between working and not working. If all viable work options must include the risk of layoff, then it could be plausibly argued that the employee does not voluntarily accept but is forced to accept an employment contract where layoffs are permitted. In a widely accepted New Jersey Supreme Court case, the warranties offered by the automobile industry were struck down by the court using a similar coercive argument. Here is the language of the Court.

> The warranty before us is a standardized form designed for mass use. It is imposed upon the automobile customer. He takes it or leaves it and he must take it to buy an automobile. No bargaining is engaged in with respect to it. The form warranty is not only standard with Chrysler but, as mentioned above, it is the uniform warranty of the Automobile Manufacturers Association.... Because his [the consumer's] capacity for bargaining is so grossly unequal, the inexorable conclusion which follows is that he is not permitted to bargain at all. He must take or leave the automobile warranty dictated by the maker.[15]

Determining the necessary and sufficient conditions for an action to be free is a task that is too great to undertake here. However, the Court seems to take the acceptance of a manufacturer's warranty in this instance to be a paradigmatic case of a coercive action by Chrysler and the Automobile Manufacturers Association. Let's accept the Court's account here.

Now, how close is the analogy between the standard automobile warranty and many of the employment conditions of the standard wage contract, for example, the acceptance of layoffs on economic grounds such as a fall in the demand for the product, an increase in the price of labor, or simply on grounds of efficiency to increase the return to the stockholders? Those who find the analogy to be close would argue that the layoff provisions, which are implicitly accepted in most labor contracts, are dictated just as the warranty is dictated. There are few, if any, competitors to offer a better deal. For those who see the analogy this way, unhesitatingly laying off employees to enhance profits still appears to be a violation of the respect for persons principle.

Another problem in standard employer-employee relations is the existence of asymmetrical information. The management knows far more about the firm's finances than the employees do. Given this asymmetry of information, it is easy for managers to deceive employees regarding the necessity of layoffs or other management policies such as wage freezes. To the extent the managers do use information in this way, they are in violation of Kant's respect-for-persons principle. (Note that in this case the level of analysis is the individual level, and there are no analogous metaphysical issues as there are in the discussion of capitalist institutional coercion.)

As I will show later in the discussion of open book management, there is no clear business reason for using asymmetric information with respect to the management of employees. Suppose management sees that a new machine can accomplish a task cheaper than human workers can. Rather than automatically replacing labor with machines, the manager could provide the employees with full information on the financial situation the firm faces and then consult with them as to how to proceed. There are possibilities beside involuntary layoffs. The employees might agree to pay cuts, a reduced work week, or pay cuts that would finance an early retirement scheme, or perhaps retraining. Both the deception charge and the coercion charge could be avoided if the employees really were fully informed and able to choose.

I need to emphasize that I am not saying that layoffs, even involuntary layoffs, are always wrong or that they always violate Kant's respect-for-persons principle. For example, if layoffs are truly necessary for the survival of the firm, then such layoffs may be morally permissible. The greater the role the employees have in determining how the layoffs will occur increases the moral permissibility. However, if the employees cannot come to an agreement among themselves or with other firm stakeholders, layoffs may be morally permissible even with the opposition of the employees. What is morally wrong about layoffs is the knee-jerk response of many managers to solve every financial issue by immediately laying people off.

In what follows I describe a number of business practices that are an improvement on the traditional labor contract in that they are more in conformity with Kant's respect-for-persons principle. In describing these practices I am not saying that Kantian moral theory requires them. Kantian ethics is not that specific, and as I indicated in Chapter 1, is not designed to be.

How Managers Can Reduce the Adverse Impact of Coercive Conditions and Reduce Information Asymmetry

First let us consider some of the ways managers could reduce the adverse impact of coercive conditions on employees. A widespread U.S. practice in employment contracts is an employment-at-will provision. The doctrine of employment at will says that in the absence of a contract or specific legislative protection, a person may be fired for any reason – good reason, bad reason, or even no reason at all. Many employees actually sign a statement acknowledging that they are "at-will employees."

One might argue that there is no moral problem with the employment-at-will practice because it is voluntarily accepted by employees as part of the employment contract, often by the actual signature of the employee. We need not get into messy issues of institutional coercion to show that employment at will is wrong. It is wrong even if the employee signs a statement specifying that they are at-will employees. That is because Kant's respect-for-persons principle applies both to how we treat others and how we treat ourselves. If an employee signs a contract that treats himself as merely a means, he has done something wrong.

What makes employment at will wrong is that a person can be fired for no reason or even a bad reason (exceptions are determined by legislation). The firing of a person for no reason violates a fundamental principle of the moral life, as does firing someone for a bad reason. Part of what it means to respect a person is to give good reasons for actions that affect them, especially when vital interests are at stake. People have an interest in developing certain long-range goals that ideally integrate the various parts of their lives. Philosophers refer to this as developing a rational life plan. Capricious treatment not based on reasons makes it impossible to develop a rational life plan, and thus capricious treatment violates the respect-for-persons principle.

Kantian morality is based on maxims that can be universalized; in other words, an action, if it is to be a moral action, must be one whose maxim can function as a reason for everyone in that situation. As we have seen, actions that are not compatible with their universalized maxims are not even free actions in Kant's sense of freedom. And if a bad reason is a reason contrary to morality, any action done on that basis is not a moral action. Firing people for no reason or a bad reason does not treat them with respect, and if an employee accepts a contract to be treated in that way, he does not respect himself; he does not respect the humanity in him. Of course, a person may feel they have no choice but to accept an employment-at-will contract. The person needs a job, and jobs are not readily available. This situation shifts the moral burden from the prospective employee to the employer. Employment-at-will contracts are wrong, and prospective employees should not be required to sign them.

Employment at will is either nonexistent or greatly constrained in most advanced economies. With few exceptions, it does not exist in Japan or Germany. Kantians would have it abolished or severely constrained in the United States as well.

Codes of Ethics, Ethics Programs, and Autonomy

Nearly all major corporations have taken steps to indicate that companies are managed in an ethical manner, that companies are good corporate citizens. The most common means for attempting to achieve this is through a code of ethics. Sometimes employees must sign the code or sign a statement that they have read it. The Johnson & Johnson Credo, which may be the best known among corporate codes of conduct, is periodically evaluated to see if it is still completely relevant, and if not, it can be updated. Many corporations also have training sessions at which the company's policies on ethical matters are taught to employees. Few companies seek input on company policies on ethics; most companies formulate their policies on ethical matters and then implement them in a top-down fashion through training.

The first edition of *Business Ethics: A Kantian Perspective* did not address issues that company codes of ethics and other corporate ethics programs might create. After publication of the first edition, Scott Reynolds and I wanted to contrast compliance-based corporate ethics programs that basically responded to legal imperatives created by legislation – think of programs that were created to bring corporations into compliance with the Sarbanes-Oxley Act – and Kantian-based ethics programs that are truly ethics based.[16] In that article, we distinguished corporate ethics programs that were designed to meet the requirements of the Federal Sentencing Guidelines – a classic compliance strategy – and programs that were motivated by the fact they were the right thing to do. Being motivated to do something because it is the right thing to do is an essential feature of Kantian ethics.

During that discussion, we explained the main elements of Kant's ethical theory, including Kant's account of freedom where, following O'Neill and others, we showed how Kant's theory of rationality was grounded in autonomy. In so doing, we opened up the issue of whether a company could impose an ethics program in a top-down manner. Were such programs a violation of autonomy and thus not consistent with a main feature of Kantian ethics?

Consider an ethics policy that is imposed on an employee who has no say in the matter. He or she may obey the policy out of fear or because he or she may want to please the boss. However, from a Kantian perspective, in such situations there is an important sense in which the person following such a policy is not acting freely. If the person follows it merely out of fear, then he or she is driven by an inclination and is not really free. Even if the person is just inclined to go along and such an inclination were not causally determining, it would still not be maximally free. That is because the person following the policy is not doing it for a moral reason.

What is needed here is some way for the employees to consent to the ethics program or, even better, to have some input into it. The important point is that a top-down ethics program imposed on employees without their participation or consent treats them as merely a means to an end (for example, the good reputation of the company) and violates their freedom in the process.

Does that mean that management should let employees simply do what their conscience dictates? Do employees have a moral right to vote on every aspect of a corporate ethics program? As a practical matter, the answer is no. And from the perspective of Kantian moral philosophy, the answer is no. As a practical matter, no business could run that way. That seems pretty obvious. From the moral perspective, the answer to both questions is "no" as well. Following your conscience is only morally permissible if your conscience is consistent with the categorical imperative. Given that ethical maxims are maxims that can be universalized, a corporate ethics program that consists of universalizable maxims should be acceptable to all. One implication of the first formulation of the categorical imperative is that the policies being advocated must be publicly advocated and free from bias. Principles that could not in principle be endorsed by everyone are principles that would fail the test of the categorical imperative. But with respect to principles that can be endorsed by all, we all freely choose those principles (because they are our principles) and we are subsequently bound by them (subject to them). Corporate ethics programs that do not seek some buy-in for those programs but rather are simply imposed from the top down do not pass the test of morality. But what counts as freely choosing those principles? As I argue at numerous points in this book, it is morally permissible in most circumstances to provide input through representatives or to delegate authority to others in certain matters so that the organization will work smoothly.

Moreover, we should not expect all ethics programs that are Kantian in nature to have the same content. Recall that the categorical imperative is just a test that rules out certain maxims. Consider a corporate ethics policy that gives an employee the right to simply take days off during any year when his or her sick days have not been used up. Another corporation might have a different policy, namely that employees should only take sick days when they are really sick. Unused sick days should not be considered free days off. One could debate the merits of both these policies, but it is hard to see how either would fail the tests of the categorical imperative in either of its formulations. It is certainly conceivable that the employees and employers in different corporations could disagree as to which policy is to be adopted, and yet both policies meet the categorical imperative test.

What should be said about those employees in a company who disagree with what the other employees and the employer want? So long as all the employees had input or so long as the employees had delegated such decisions to management, no employee's freedom has been compromised. As a practical matter, it is sometimes perfectly rational for people to delegate decisions to others. In a corporate environment, there is business to be done, and as a practical matter, long discussions on every detail of an ethics program cannot be permitted, and the employees know this. Kant acknowledged this point as well. Kant recognized the importance of delegating the punishment of criminals to the state and believed that all rational persons would accept that delegation.[17] Kant also endorsed a republican form of government. Therefore, a Kantian is not committed to the view that every action must have universal assent to be morally acceptable.

The implications of all this for a moral ethics program is that such a program should not be simply passed down as an order from headquarters. The important point is that the corporate ethics program must be developed by a process that the employees find acceptable; otherwise it does not pass the Kantian test.

The requirements of Kantian moral philosophy are consistent with research from organizational justice. That literature demonstrates that employees will accept individual policies with which they do not agree if the processes that resulted in the adoption of the policies were perceived as fair. The bridge that links perceptions that are perceived to be fair with processes that are fair are the three formulations of the categorical imperative.

Kantian moral philosophy is also consistent with best practice in business. Research suggests that an ethics program that does not have buy-in from employees will lack support.[18] Employee participation is a moral requirement as well as a practical business move. The fact that such a program will be successful, however, is not the reason that makes its adoption moral. What makes the ethics program moral is that its having been developed by processes that pass the test of the categorical imperative.

Open Book Management

There is a management technique that greatly enhances opportunity for employee participation while simultaneously increasing employee autonomy and reducing problems of information asymmetry. This technique, developed by Jack Stack at the Springfield Remanufacturing Company, is called open book management. This technique is not new. Stack's book *The Great Game of Business* was published in 1994, but its impact continues on. It was updated, expanded, and published again in 2013. The underlying philosophy of open book management is that persons should be treated as responsible autonomous beings. A precondition of such treatment is that employees have the information needed to make responsible decisions. The author of an early book on open book management, John Case, calls this "empowerment with brains."[19]

Under open book management, employees are given all the financial information about the company. They also participate in a profit-sharing plan where what they make is in large part determined by the profit the company turns. With complete information and the proper incentives, employees behave responsibly without the necessity of layers of supervision.

> How does open book management do what it does? The simplest answer is this. People get a chance to act, to take responsibility, rather than just doing their job .... No supervisor or department head can anticipate or handle all ... situations. A company that hired enough managers to do so would go broke from the overhead. Open book management gets people on the job doing things right. And it teaches them to make smart decisions ... because they can see the impact of their decisions on the relevant numbers.[20]

The adoption of practices such as open book management would go far toward correcting the asymmetrical information that managers possess compared to rank-and-file employees and that gives rise to the charge that the employment contract is often deceptive. Anytime the firm faces a situation that might involve the layoff of employees, employees as well as managers would have access to all the relevant information. Deception in such circumstances would be much more difficult. Open book management also greatly increases employee autonomy, including autonomy with respect to company ethics programs.

Early adherents to open book management at the end of the twentieth century included Herman Miller, Allstate Insurance, and Intel. Toward the end of the first decade of the twenty-first century, John Case informed *The Economist* that 100 U.S. firms practiced some form of open book management.[21]

Does Kantian ethics require companies to adopt open book management? No. There may be other management techniques that eliminate information asymmetry and/or enhance employee autonomy. Some may choose to try those techniques rather than open book management. What Kantian ethics does require is that companies not violate employees' autonomy, nor deceive them. However, there may be several morally permissible ways to structure business practice to achieve that goal.

What about Deception in Advertising?

Kantian ethicists are in close agreement that deception is a serious moral wrong. I have taken that line here with respect to employer-employee relations as well as elsewhere.[22] However, one of the most common issues of deception relates to advertising. Claims that various ads are deceptive are commonplace, and some believe that nearly all ads are inherently deceptive. Is advertising deceptive and thus immoral from the Kantian point of view?

The answer to that question depends more on how deception is defined than it does on Kantian moral theory. Deceptive advertising is wrong, but what counts as deception? The business ethicist who has provided the most nuanced analysis of deceptive advertising is Thomas L Carson. Carson defines deception in the narrow sense as follows: "A person S deceives another person S1 if and only if S intentionally causes S1 to believe X where X is false and S knows or believes that X is false."[23] One immediate implication of this definition is that there are falsehoods in advertising that are not deceptive because everyone knows they are false. In other words, there are many ads in which S1 does not believe the claims that are being made. S cannot get S1 to believe X. Jules Henry made this point very early in the discussion of advertising ethics: "No sane American would think that literally everybody is 'talking about the new Safire' that Alpina cigarettes literally 'put the man in menthol smoking' or that a woman wearing a foundation garment becomes so beautiful that her sister literally wants to kill her."[24] (Yes, these ads are from a long time ago.)

Some argue that ads may not deceive just because people know they are ads. People are cynical about advertising so they tend not to trust it. In other words, people in general do not believe that the X of any ad is true. Although there certainly is a lot of cynicism about ads, deception in advertising cannot be dismissed that quickly. After all, if advertising did not work, businesses would not spend so much money on it. It certainly seems to be true that lots of people believe the claims of advertisers, and if those claims are false and the advertisers know that and yet intentionally get consumers to believe the claims, then a lot of people are being deceived.

As an aside, it is not just verbal claims that can be the object of deceit; marketing practices can be deceitful as well. If shoppers are given a choice between two boxes of cereal, one short and squat and the other tall and narrow, they inevitably choose the tall and narrow box, even if it contains less and costs more. Boxes and bottles are often much larger than needed for the quantity of material they hold. The marketers know how consumers behave (indeed, business firms often hire psychologists to tell them), and so they use techniques to get customers to believe they are getting more of a product when they know that is not true. The marketers know that their marketing practices give the impression to consumers that they get more than they are actually getting.

With Carson's definition before us, we now have some way of telling which falsehoods in advertising and marketing are deceptive and which ones are not. The deceptive ones are the ones that the advertisers or marketers get consumers to believe when those same advertisers and salespeople know the claims or inferences are false. Carson provides a consistency argument (a Golden Rule argument) to show why deception is wrong.[25] I would argue that Carson's Golden Rule argument is a Kantian-type argument that works in ways very similar to the universalizability (first) formulation of the categorical imperative.

However, I include this brief discussion of deceptive advertising here because deception undermines autonomy; someone intentionally gets someone else to believe something that he or she knows to be false. That interferes with the autonomy of the customers and treats them merely as a means for getting them to behave as the advertisers or marketers desire. And that is wrong.

This brief discussion shows us something else about Kantian ethics. Kant can give a very precise argument as to why deception is wrong. But what counts as deception needs additional analysis, and most importantly it needs analysis about particular contexts. After all, whether a customer is caused to believe something is true when the advertiser knows that it is false depends on the cultural circumstances and on facts about the sophistication of the customer. In a culture that is skeptical of advertising, there is less deception because the customer is less likely to believe the claims of advertisers. On the other hand, if the customer is a vulnerable consumer, then deception is rather easy, and ads that would not be wrong when directed at non-vulnerable consumers become wrong when they are directed at vulnerable consumers. One of the classic business ethics cases in this regard is G Heileman Brewing Co.: Power Failure at Powermaster.[26] In that case Heileman creates an ad for a strong malt liquor aimed at African Americans. Heileman eventually responds to the public outcry by withdrawing the ad. The debate in my classes and nearly everywhere the case is taught is whether or not African Americans should be considered to be vulnerable consumers in this case. What are the conditions for vulnerability and who meets those conditions?

This discussion of deceptive advertising shows that one does not simply apply an ethical theory to a case for a quick answer. Questions of definition, culture, and context are relevant. Hopefully this discussion will quiet those who think that what's wrong with Kantian moral theory is that it just applies rules to situations independent of context. Kantian theory provides a cogent argument as to why deception in advertising is wrong. Kantian moral theory does not tell you whether an ad is deceptive independent of context.

A Brief Summary

To respect the humanity in a person, the managers of a corporation must avoid practices that coerce or deceive employees and should adopt practices that avoid coercion and deception. What counts as coercion is a matter of controversy and of great philosophical interest. In business ethics, there is controversy concerning whether the standard employment contract is coercive. Without settling that issue, I have argued that one feature of the standard employment contract, namely employment at will, does not pass the respect-for-persons test. I have also argued for employee participation in the development of corporate ethics programs, including the development of codes of ethics. Codes of ethics should not be developed in a top-down manner. I have explained how the practice of open book management can both enhance employee autonomy and avoid the temptation to deceive employees with respect to the numbers. But respecting the humanity in a person requires more than the negative duties not to coerce or deceive, as the following discussion shows.

Positive Freedom and Meaningful Work: Respecting the Humanity in a Person

Lack of coercion and deception is not always sufficient for treating those in a business relationship with respect. On occasion we are obliged to act positively to further their humanity. This is because we not only must not use people but we must treat them as ends in themselves. To treat a person as an end itself sometimes requires that we do more than merely refrain from coercion or deception; it requires that we take some positive action to help a person. This is required both by the respect-for-persons formulation of the categorical imperative, by some of Kant's own writings on work, and by Kant's imperfect duty of beneficence to help others.

I argue here that an obvious way a business firm can honor its obligation to treat people as an end is to provide meaningful work. My discussion of meaningful work in the first edition stimulated considerable comment. I will build on my discussion in the first edition, consider the critical comment that discussion has received, and conclude with my latest thoughts on what constitutes a Kantian theory of meaningful work. Interestingly, I have not seen critics deny that meaningful work does treat people as an end. Rather, most of the debate has been around what constitutes meaningful work.

The argument that a business firm can honor its obligation to treat employees as an end through meaningful work rests of Kant's characterization of positive freedom. The Kant scholar who has most persuasively articulated the Kantian theory of positive freedom is Thomas E. Hill, Jr. As we said earlier, negative freedom for Kant is the ability to act independently of determination by alien causes. Negative freedom is freedom from. Positive freedom is the freedom to achieve something. An uneducated person may not be coerced but needs education to be truly free. In terms of respect, the uneducated person needs education to gain the autonomy that goes with full respect.

The task before us is to show how the meaningful work requirement is an obvious and appropriate way to have business be supportive of each employee's positive freedom. In so doing I make use of Hill's interpretation of the phrase "humanity as an end in itself." Hill begins his analysis by asking: What does morality require if we are to treat humanity as an end in itself? To answer this question, we must know what Kant means by "humanity." A common answer is that Kant equates humanity with our capacity for rational thought. But although rationality in the sense of being bound by the laws of reason is surely part of what Kant means by humanity, it is not the only part. Based on an examination of the Kantian texts, Hill argues that humanity includes the following capacities:

1. The capacity and disposition to act on the basis of reasons.
2. The capacity to act on principles of prudence and efficiency (hypothetical imperatives) so long as these hypothetical imperatives do not contradict categorical imperatives.
3. The power to set any end whatsoever, which includes the "ability to see future consequences, adopt long range goals, resist immediate temptation, and even to commit oneself to ends for which one has no sensuous desire."
4. The capacity to accept categorical imperatives.
5. "Some ability to understand the world and to reason abstractly."[27]

Assuming that Hill is right, it is a requirement of morality that people treat other people in ways that respect these capabilities, for that is what Kant means by treating humanity as an end in itself.

But Hill's account still focuses primarily on our rational capacities. Some contemporary commentators have gone further in specifying what it means to respect the humanity in the person of another. For textual support they begin by citing two examples of moral duties from the *Foundations of the Metaphysics of Morals*, specifically the imperfect duties to develop one's talents and give aid to the needy.[28] There Kant explicitly says that being indifferent to someone does not treat him merely as a means (merely use them). But being indifferent does not treat the person as an end in itself. That is why, for Kant, not using people is not sufficient for respecting them in the way morality requires. In part two of the *Metaphysics of Morals*, Kant develops his theory of our obligations of virtue, that is, of our obligations of perfection to oneself and a duty to promote the happiness of others. He asks, "What are the ends which are at the same time duties? They are these: one's own perfection and the happiness of others."[29] In an elaboration on our duty to promote the happiness of others, Kant argues that each must be concerned with the physical welfare of others and with their moral well-being.[30] Thus, our duty of beneficence requires that we do more to respect the humanity in a person than simply respect the rational capacities that people have. Let us take respecting a person's rational capacities as a necessary condition but not a sufficient condition for respecting the humanity in a person. At some level we must be concerned about their happiness as well.

We must be careful how broadly we interpret this notion of happiness. Kant is basically concerned to show that we have an obligation to be concerned with the humanity of others. Thus, our primary concern is with the rational capacities that Hill has identified, as well as our rational well-being. One must also be concerned about the physical well-being of others and about their moral development. But one has no further obligation to make them happy. What I intend to show is that work should be constructed as far as possible to protect and support the humanity in each worker as defined earlier. That is the maxim the moral manager should adopt.

Before applying Kant's imperatives regarding treating humanity as an end in itself, a few more clarifying textual comments are necessary. What is the nature of our positive duty to promote the happiness of others or – in our more restricted language – to promote the positive freedom of another? Kant believed it is an imperfect duty in the sense that we do not need to help another on every occasion it is possible to do so. Using the schemata provided by Hill, the duty to help another is subject to the following conditions:

1. One cannot promote the happiness or positive freedom of another by violating a perfect duty. For example, one cannot lie to promote the happiness of another.
2. One must have a maxim that one will promote the happiness or positive freedom of others. In other words, the duty to promote the happiness or positive freedom of others is always present.
3. Nonetheless, for any given occasion where I could promote the happiness of another, I have the option of not promoting it in this case.
4. I must actually promote the happiness or positive freedom fn others on some occasions.
5. These acts of benevolence must be done from the appropriate moral motive.

But how, as a practical matter, should this be done? Onora O'Neill indicates that any application of the duty of beneficence involves a certain tension between love and respect.[31] On the one hand, we must be concerned with the activities that others would adopt in order to be happy. That is the love part. On the other hand, we cannot impose on them our views of what activities they should engage in to make them happy. That is the respect part. My concern that in fulfilling the duty of beneficence we not impose our view of what makes people happy on another is why I prefer to speak of an obligation to look after the positive freedom of others. In paternalism, love is carried too far at the expense of respect. O'Neill put it this way:

> Policies of respect must recognize that the other's maxims and projects are *their* maxims and projects. They must avoid merely taking over or achieving the aims of these maxims and projects, and must allow others the "space" in which to pursue them for themselves.[32]

Let us apply all this to the business firm. Employers must not coerce (violate the negative freedom) of their employees; this duty is a perfect one. Moreover, employers have an imperfect duty to adopt a maxim to be concerned with the positive freedom of their employees, that is, with their moral well-being and physical welfare. Of special concern are the rational capacities identified by Hill. Management practice should be such that it strengthens, rather than weakens, the rational capacities of employees.

With respect to the general welfare of employees, managers have an imperfect duty to be concerned with the physical welfare of employees and to do nothing that impedes their moral development. Managers must allow employees the latitude to pursue their individual conceptions of happiness in accordance with their own desires. It should be noted that firms should not act paternalistically. For example, there is nothing wrong with a company having a gym for the use of employees during lunch time or after work, but there is something wrong with a company requiring employees to use the gym. It should be noted that many companies behave in a paternalistic fashion, and although some of these practices may be considered enlightened, a Kantian would reject them on moral grounds. This fact reminds us that the Kantian moral perspective does not simply endorse a hodgepodge of "enlightened" management practices.

Now, some might object that I am not taking account of how unhealthy life styles can raise the cost of health insurance for healthy employees. Don't healthy employees have a right to prevent other employees in the same firm from smoking or failing to use the gym? This objection has a point. However, a company might be within its moral rights to charge employees who smoke more for health insurance than for employees who are nonsmokers.[33] Employers also have the right to forbid smoking on the job. But it seems that a company has no moral right to make them stop smoking. (Smokers may, and probably do, have a moral obligation to stop smoking, but that is another matter.) Similar remarks can be made about the problem of employee obesity.

In what follows I argue that adopting the maxim of providing positive freedom for employees can be honored if the employers provide *meaningful* work. This is because spelling out the content of positive freedom as we have done here provides a reasonable account of the normative conditions for meaningful work.

Kantian Ethics and Meaningful Work

First, Kant argues that work is necessary for the development of selfhood:

> Life is the faculty of spontaneous activity, the awareness of all our human powers. Occupation gives us this awareness …. Without occupation man cannot live happily. If he earns his bread, he eats it with greater pleasure than if it is doled out to him …. Man feels more contented after heavy work than when he has done no work; for by work he has set his powers in motion.[34]

Thus, it appears that work is a duty that one has to oneself. It contributes to independence and to our self-conception. Although Kant does not say so explicitly, one can infer from his remarks that working provides self-respect.

In addition, Kant actually endorses wealth and the pleasure it brings. However, to work simply in order to earn money is to display the vice of miserliness, a vice that is even worse than avarice. So long as work is required to make money so that one can provide for one's needs and pleasures, and in so doing make oneself independent, work has value. Selected comments of Kant's will establish his view.

> A man whose possessions are sufficient for his needs is well-to-do …. All wealth is means … for satisfying the owner's wants, free purposes and inclinations …. By dependence on others, man loses in worth, and so a man of independent means is an object of respect …. But the miser finds a direct

pleasure in money itself, although money is nothing but a pure means .... The spendthrift is a lovable simpleton, the miser is a detestable fool. The former has not destroyed his better self and might face the misfortune that awaits him with courage, but the latter is a man of poor character.[35]

These selected quotations are from Kant's brief remarks, which amount to less than ten pages and represent student notes from his lectures on ethics in the 1770s before he had written his more critical works on ethical theory. Nonetheless, they provide a starting point for a Kantian theory of meaningful work and for the obligations of a firm with respect to providing it.

So long as business firms provide jobs that provide sufficient wealth, they contribute to the independence and thus to the self-respect of persons. For a Kantian, the true contribution of capitalism would be that it provides jobs that help provide self-respect. Since the publication of the first edition, the issue of an adequate wage has taken on increasing importance. For the past twenty years or so, the wages of the middle class have stalled, the rich have become richer, and inequality has greatly increased in all industrial societies, but especially in the United States.[36] Moreover, the national minimum wage has not increased since 2009 and at this writing remains at $7.25 per hour. Some states and even cities have raised the minimum wage either through legislative action or voter referendum. But what is quite amazing is how business itself has in many instances taken the lead in raising the minimum wage as well as other low wages without being required to do so by the government. What the leaders of these businesses seem to think is that raising wages increases profitability rather than decreases it. This compatibility between profitability and contributing to the positive freedom of employees is important for those who believe that the purpose of business is to pursue profit. (An extensive discussion of this issue is a focal point of Chapter 4.)

One of the early and interesting responses in the twenty-first century to low wage issues on the part of business is that of Mark Bertolini, the CEO of Aetna Insurance. He has raised the lowest salary in the company to $16 per hour. Why did he do that? In an interview at the Davos conference on CNBC, he indicated that a company study showed that many of Aetna's workers were single mothers who had to rely on food stamps and Medicaid because they could not afford the company's health plans. He indicated that it was not fair that a Fortune 500 company pay wages that put some of its employees in poverty. Bertolini indicated that several other major companies have asked whether Aenta had a template and a formula they could follow.[37] Kantians, at a minimum, would argue that paying a wage that puts employees in poverty when a company could afford more would not respect the humanity in employees. Kant would be as concerned as we are about the number of jobs that do not provide a living wage.

One of the features of this book is the optimistic claim that managing a corporation according to the principles of Kantian ethics is not only good ethics but also good business. So what about the cost to Aetna of a company minimum wage of $16 per hour? The estimated cost is projected to be about $14 million to cover the roughly 12 percent of Aetna employees who are currently below the $16 per hour standard. Bartolini indicated that Aetna currently faces a cost of $120 million in employee turnover, so a reduction in the turnover costs should easily offset the increased expense.

One prominent argument against raising the minimum wage is that it is too expensive. Both small businesses and large companies that operate on small margins cannot afford it, or so it is argued. However, in late February, Wal-Mart announced that it would raise wages to $1.75 above the federal minimum wage, arguing that Wal-Mart could afford it and that such a policy was in line with their strategy of improving the quality of the workforce and reducing turnover.

Of course, it is one thing to assert that raising the minimum wage will more than pay for itself and quite another to see if those cost savings will actually result. However, the evidence is already coming in. In 2014, Ikea raised the minimum wage for its U.S. employees. That raise was based on something called the MIT Living Wage Calculator that takes into account the local cost of rent, food, transportation, and the like. Thus, the size of the raise depends on what basic essentials cost in the local area.[38] So the minimum wage in an Ikea store in Washington, DC will be different from the minimum wage in Pittsburgh. These results have been so spectacular that Ikea is planning to do a second round of wage raises. Employee turnover is down 5 percent in six months, and the quality of job applicants has increased markedly.[39]

Interestingly some small business owners have also bucked the conventional wisdom about this matter. NBC Nightly News on February 17, 2015 featured the restaurant Zazie in San Francisco on the basis of its decision to pay above the minimum wage and provide benefits to all its employees, including those working part time. A visit to the

Zazie website provides the human resource philosophy of its owner, Jennifer Piallat:

> Jennifer is a strong supporter of hourly worker's rights and Zazie is proud to provide all of our employees with full health care benefits, full dental benefits, paid sick leave and a 401k pensions plan with an employer match, as well as a profit sharing bonus system for kitchen workers and management …. Through Zazie Jennifer hopes to be instrumental in changing the transitory nature of restaurant work, bringing our customers the assurance and consistency that will only be provided by a stable and appreciated staff.[40]

By all accounts the restaurant is phenomenally successful. Employee turnover for Zazie is 5 percent while turnover for the industry as a whole is 22 percent. Surely those numbers provide a lot of the reason for Zazie's success. Given the increase in restaurants in the United States, generalizing the Zazie experience would be of great benefit in providing a living wage for restaurant workers.

And then there is Cotsco, a discount wholesaler in a highly competitive market. They have long had a reputation of paying higher wages and providing more benefits than its competitors do. The average hourly salary at Costco is $20 an hour. How can they pay that much and still remain competitive? The turnover rate is only 5 percent – way below the industry average.[41]

Why haven't other companies done what Aetna, Zazie, and Costco have done? Because, as Barbara Dyer, President and CEO of the Hitachi Foundation and Senior Lecturer at MIT's Sloan School of Management, pointed out in a recent interview, "Unfortunately, for some investors, a firm's employees are viewed as liabilities instead of assets."[42] Looking at employees in this way is both bad ethics and bad business. I shall elaborate on this point shortly.

Many argue that increasing the minimum wage will decrease the overall level of employment. After all, if something becomes more expensive, people will use less of it. If the price of labor goes up, employers will use less of it. The actual situation is more complicated than that. If the price of labor goes up, it will have an impact on other factors. If employees cannot be laid off, as is probably the case with fast food outlets, for example, then profits will fall or the cost of the product will go up. Despite the fact that mainstream economists have accepted the higher wages–less employment argument, both recent and not so recent research have cast this argument into doubt. For a relatively early paper, see "The Effect of the Minimum Wage on the Fast Food Industry."[43] For a recent paper, see "Why Does the Minimum Wage have no Discernible Effect on Employment."[44]

Concerns about inequality and wages that are not sufficient to keep employees out of poverty dominate the public debate nowadays. However, there is more to treating the humanity of employees as an end than just paying them well. I would also argue that employers should provide meaningful work. In the first edition, I set out the conditions of a Kantian theory of meaningful work as follows:

1. Meaningful work is work that is freely chosen and provides opportunities for the worker to exercise autonomy on the job.
2. The work relationship must support the autonomy and rationality of human beings. Work that unnecessarily deadens autonomy or that undermines rationality is immoral.
3. Meaningful work is work that provides a salary sufficient for the worker to exercise her independence and provides for her physical well-being and the satisfaction of some of her desires.
4. Meaningful work is work that enables a person to develop her rational capacities.
5. Meaningful work is work that does not interfere with a person's moral development.
6. Meaningful work is work that is not paternalistic in the sense of interfering with the worker's conception of how she wishes to obtain happiness.

I emphasize that these conditions are not descriptive of how employees or employers would define meaningful work. Rather, these characteristics are normative conditions for meaningful work that I believe can be derived from Kant's moral philosophy and from his explicit comments on work.

Empirical evidence showing that treating employees simply as liabilities or as a cost is overwhelming and stretches over decades. In the first edition, I cited extensively the work of Jeffrey Pfeffer. Contrary to those who look at employees as liabilities, Pfeffer has argued that firms can gain a competitive advantage if they focus on their employees and treat them well or in an enlightened way. In his 1994 book, *Competitive Advantage Through People*, he identified sixteen human resource practices for managing people successfully and, I would argue, ethically. In listing the sixteen practices, it is easy to see that they have a Kantian flavor. They include (1) employment security, (2) selectivity in recruiting, (3) high wages, (4) incentive pay, (5) employee ownership, (6) information sharing, (7) participation and empowerment, (8) team and job redesign, (9) training and skill development, (10) cross-utilization and cross-training, (11) symbolic egalitarianism, (12) wage compression, (13) promotion from within, (14), a long-term perspective, (15) the measurement of practices, and (16) an overarching philosophy.[45] In that work, Pfeffer provides empirical support for the business success of each of the sixteen practices. Since the publication of the first edition Pfeffer has published two additional books[46] that provide a further elaboration of his thesis and additional examples of profitable businesses that implement his principles for managing people successfully. Neither of his later books moves the theoretical analysis beyond his 1994 book. The 2006 book, however, covers many more topics than competing successfully by emphasizing human capital.

Not only has Pfeffer updated his own research, but Zeynep Ton, an adjunct faculty member at MIT's Sloan School of Business, has done research that culminated in a ten-year study. Published as *The Good Jobs Strategy*, it had the important subtitle, "How the Smartest Companies Invest in Employees to Boost Profits." Using four diverse companies (Southwest Airlines, Trader Joe's, Costco, and Mercantona) as examples, she argues that one can have high investment in employees, low costs, higher profits, and greater customer satisfaction.[47]

What is now required is to show how the specific items on Pfeffer's list are connected to the specific conditions of a Kantian notion of meaningful work. Meaningful work is work that provides an adequate wage. Principles 1, 3, and 12 are means for providing an adequate wage. Principle 3 (high wages) is obvious as a means to this goal. Job security (Principle 1) is important for providing job stability, which means that employees with an adequate wage will likely continue to have an adequate wage. In addition, economic security is often what employees want most as an element of positive liberty. Job security is essential because it is necessary for achieving the characteristics of meaningful work. Wage compression (Principle 12) refers to a policy that reduces large differences in pay between the top officials in the corporation and other employees, as well as differences between individuals at roughly the same functional level. If wage compression were adopted horizontally, the VP for Finance would not earn a premium over the VP for Personnel as is now the case in most U.S. companies. Executive compensation has been a major topic for business ethicists for several decades.[48] The ratio between the pay of top executives and the least-paid in the firm has steadily risen. Wage compression is a way of reversing that trend. Profit sharing is a practical way of helping achieve that. Another important component of meaningful work is autonomy and independence. Principle 2, participation and empowerment, speaks directly to that issue. We have already seen that participation is a requirement in decisions regarding layoffs if the employment contract is not to be viewed as coercive. But participation is also required for positive freedom as well as for negative freedom. In the next chapter, in which participation is discussed in more detail, I show that participation is one of the key steps in the democratization of the firm.

Another requirement of meaningful work is that the work contribute to the development of employees' rational capacities. Principles 2 (selectivity in recruiting), 6 (information sharing), 8 (teams and job redesign), 9 (training and skill development, 10 (cross-utilization and cross training), and 13 (promotion from within) are all a means to this goal. By selecting the right people in the first place, you do not get people who are overqualified for the job. Working on a job for which you are overqualified is usually boring and frustrating because it does not make the best use of your rational capacities. We have already seen the value of information sharing in our discussion of open-book management. Providing all employees with the numbers make them more informed and better decision-makers. Information sharing is facilitated through teams. Teamwork enables us to learn skills and perspectives from other team members. All contribute to tackling a business problem, and as a result of team effort the knowledge base of team members is increased.

Cross-utilization and cross-training (Principle 10) is a technique that allows employees to do many different jobs. Routine assembly line work is often dull, boring, and repetitious. By training a worker to do many different jobs a firm can eliminate or greatly mitigate the drudgery of assembly line manufacturing. Cross-utilization makes teamwork possible and vice versa. Japan has successfully practiced cross-utilization in its auto plants for decades, and this practice has increasingly been adopted by automobile manufacturers in the United States.

One of Kant's imperfect duties is that each of us has to develop our talents. All the management practices discussed in the previous paragraph contribute to skill development that is both valuable in itself and helps meet the obligation that each of us has to develop our talents. Adopting Peffer's principles would transform traditional manufacturing work into an approach more compatible with a Kantian theory of meaningful work. Pfeffer's work over two decades shows that his management principles also contribute to a firm's success.

One principle, Principle 11 (symbolic egalitarianism), is also necessary for self-respect and is a condition of fairness. It breaks down some of the class barriers that say that not only is the work that I do different from yours, but it is more valuable than yours, and thus I am a more valuable person. The person who is doing what is perceived to be inferior work thus loses self-respect – and unjustly so. A business firm is a cooperative enterprise, and thus every task is valuable to the enterprise. Market conditions and other legitimate factors may justify the fact that we pay one job category more than another, but these conditions do not justify inequality of respect. Open book management and the use of teams help implement symbolic egalitarianism. Jobs are renamed to provide more respect. Garbage collectors become sanitation workers. Some may think changing the names of jobs is frivolous, and so it is if the name changes are not accompanied by many, or at least some, of the human resource practices that contribute to meaningful work. But sensitivity to what a job is called is one aspect of treating employees as an end and thus one aspect of treating them with respect. This integration of the various management practices that provide meaningful work translates into the achievement of an overarching philosophy (Principle 16). In this context an overarching philosophy refers to management's commitment that these employment practices are a basic corporate value.

Objections and Replies

My account of Kantian meaningful work has met with significant critical commentary, although interestingly no one to my knowledge has challenged the main contention that providing meaningful work is a reasonable way to implement Kant's demand that the humanity of persons be treated as ends (with respect). In a business context, meaningful work is a plausible way for managers to respect their employees.

However, this second edition of *Business Ethics: A Kantian Perspective* provides an opportunity to consider two of the main critics of my account and to further refine my Kantian theory of meaningful work.

I have benefited greatly over the years from critical conversations I have had with Joanne Ciulla and Joseph Desjardins regarding meaningful work. In a festschrift devoted to my work, Ciulla says the following:

> Unlike Bowie, I am skeptical of the ability of corporations to actually provide meaningful work; however, like Bowie, I agree there are moral conditions that increase the potential for people to find meaningful work in corporations …. It [the chapter] then uses some historical examples to show why the dynamics of freedom and power in the employer/employee relationship are often a zero sum game. To this end, I discuss the distinction between meaningful work and – what I believe is a more realistic goal for corporations – worthy work.[49]

Events over the past fifteen years convince me that in many respects the first edition of *Business Ethics: A Kantian Perspective* was too optimistic. This will be most evident in the revisions that were required in the international cosmopolitan chapter in this second edition. It is also evident in the fact that many firms that I held up as exemplars of Kantian business ethics have fallen off their Kantian pedestals. So perhaps I was also too optimistic about the ability of corporations to provide meaningful work as I have defined it, despite the business case that can be made for doing so. Of course, even if providing meaningful work is more difficult, that by itself does not change the normative analysis. However, Ciulla's analysis of the difficulties in implementing business practices that provide meaningful work and her own competing account deserve further attention.

Although I emphasize meaningful work as a means to gain respect and grow as a human being by exercising one's talents, Ciulla reminds me that there is much in the work environment that undermines negative freedom (freedom from coercion), and that the decision to work itself requires a giving up of freedom in some respects. This latter point does not overly concern me because all choice forecloses other choices. Moreover, having a job provides income, and income expands choices because it opens up possibilities. This is especially true when one has an adequate wage, and that is why I have emphasized the role that an adequate wage plays in meaningful work. Of course, Ciulla is well aware of all this and in her analysis she points out that for the unskilled their range of options is extremely limited, that the demise of unions has given much more power to management, and that there is a correlation between higher-paying jobs and the amount of freedom one has. All these points are well taken. I especially agree with Ciulla that unions provide a means for enhancing employee freedom. In this case I practiced what I now preach. I am a former president of the AAUP union at the University of Delaware. I also point out that the United States is the most anti-union country in the G-20. Unionization is considered a human right by the United Nations. Obviously unions provide an opportunity for participation, and I think Ciulla and I agree that participation schemes are one way to limit coercion. In response to trends over the past twenty years, in this edition of *Business Ethics: A Kantian Perspective* I pay more attention to adequate pay for the middle class, issues of inequality, and economic mobility. However, none of this requires a revision in my original account of meaningful work.

One of Ciulla's more interesting suggestions is that she would substitute the notion of "worthy work" for my notion of "meaningful work." Ciulla describes worthy work as follows:

> Worthy work is work that is morally and/or aesthetically valuable. It is objective … Worthy work has a purpose that most people can see is good in some way …. The most worthy jobs are those that have worthy purposes. They are jobs in which people help others, alleviate suffering, eliminate difficult, dangerous, or tedious toil, make someone healthier and happier, aesthetically or intellectually enrich people, or improve the environment in which we all live.[50]

I like Ciulla's notion of worthy work. I have always thought that some occupations were noble in the sense that the work contributed to a broader social good even if it did not result in high pay. I think that those who have positions in occupations with the characteristics Ciulla identifies are in fact doing worthy work. In some cases I would like to see some of those occupations have more respect. Public school teachers in grades K through 12 are sometimes referred to as mere babysitters – a characterization that demeans both teachers and babysitters. We have all heard the phrase, "If you can't do, teach." Yet teachers are surely doing what Ciulla would characterize as worthy work. Moreover, I would like to see more people engaged in worthy work and I would hope that technological changes might increase the number of occupations that provide worthy work.

However, I am reluctant to substitute Ciulla's notion of "worthy work" for my concept of "meaningful work." I believe the class of meaningful work is larger that the class of worthy work.[51] By that I mean that nearly all jobs can be made more meaningful, but there will always be a wide range of jobs that are not worthy jobs as Ciulla defines them. What I find attractive about Pfeffer's list of business practices that recognize the importance of people for competitive success is that they are nearly universal in the sense that nearly all jobs can be managed according to his sixteen practices, and when managed in that way, nearly all jobs would become more meaningful.

In discussing worthy work, Ciulla makes the somewhat provocative claim that the notion of "worthy work" is objective. It seems imperative here to discuss the ways in which my concept of "meaningful work" is objective. The common way to frame the issue is as follows: Are there objective characteristics of meaningful work or does the meaningfulness of work depend on whether the worker feels or experiences it as meaningful? An account of meaningful work that is based on the feelings of the worker is one that I would characterize as subjective. My account is clearly not subjective in that sense. My account is objective in the sense that it consists of a set of characteristics that are consistent with Kantian normative ethical theory in general and with the second formulation of the categorical imperative – the respect-for-persons formula – in particular. Work that has those characteristics is meaningful work. The fact that a person may not experience a job with those characteristics as meaningful is beside the point. The job is still meaningful in the normative sense of that term. Pfeffer's list of management practices that take employees seriously and make them competitive objectively contributes to making work more meaningful as well. Those practices enable jobs to meet the normative criteria for meaningful work. Since not all work can be worthy in Ciulla's sense, nearly all work can be meaningful in my Kantian sense because there is a set of management practices that would enable us to achieve it.

Joseph DesJardins has also provided stimulating challenges to my account of meaningful work. DesJardins's basic charge is that my account of meaningful work is too "thin." To elaborate on this thesis, Desjardins distinguishes between the instrumental view of work and the human fulfillment view of work. The instrumental view, which is also the conventional view, sees work as "an instrumental good that must be tolerated in order to achieve other ends." The human fulfillment view sees work as "a key activity through which people can develop their potential as human beings."[52] Although it seems obvious that I intend to adopt the human fulfillment view, DesJardins argues that I really get only halfway there. That is because, as a traditional liberal, I have a thin theory of the good – that is, one based on protecting the process or form of rationally chosen ends – but I have no substantive theory of the good, and as a result my view of meaningful work is impoverished.[53] DesJardins then provides an alternative that rests on a thick theory of the good. By a thick theory of the good it appears that DesJardins is appealing to virtue ethics for a substantive theory of the good based on human capacities. However, when I examine what looks like DesJardins's account of good work, it looks very much like my own account. DesJardins says:

> In summary, then, what are the human capacities that work can help actualize? … I will mention four. Through work we exercise our freedom and autonomy in making choices and directing our lives. As Bowie recognizes, meaningful work would be work that allows us to express and develop these rational capacities. Work also provides the opportunity for developing our talents and exercising our creativity, actualizing a wide range of human abilities, skills, and capacities. Through work, humans also create their own society and culture and they create their own identities. Finally work is an expression of our nature as social beings; it prevents us from falling into a solipsistic and egocentric life.[54]

Quite honestly, I do not see that much of a difference between my theory of the good and DesJardins's. Any contemporary Kantian could, I think, endorse everything DesJardins says in the quoted paragraph and not give up his or her Kantian position.

Perhaps the real difference between me and DesJardins would come out more clearly when we consider his substantive account of meaningful work:

> I would suggest the following three standards for judging goods and services to distinguish meaningful work from less meaningful work. Meaningful work produces: (a) goods and services that satisfy human needs (rather than preferences); (b) contributes to the common good; and (c) is of high quality.[55]

This account surely does differ from my criteria for meaningful work. Indeed it has a family resemblance to Ciulla's notion of worthy work. DesJardins speaks disparagingly of those who produce junk food rather than nutritious food and those surgeons who operate to enlarge breasts rather than repair a heart valve. I think DesJardins's negative comments here shows the dangers of a more thick theory of the good. When carried to an extreme, it can sound elitist and paternalistic. In the world of business, there is a place for McDonalds, isn't there?

But my real disagreement with DesJardins is similar to my disagreement with Ciulla. I think both accounts are too restrictive. Not all work can meet their criteria for meaningful work. Surely some jobs need to be directed at satisfying human preferences. Some people make snowmobiles and others make chocolate candy. One could argue that neither of these occupations satisfies human needs as opposed to preferences. Yet these occupations along with similar ones can be made more meaningful by having management adopt practices like those outlined by Pfeffer. Worthy work is a worthy ideal. Meaningful work as I have defined it is a practical goal. A Kantian could endorse both.

Summary

In summary, I have tried to apply to the business context the message of the second formulation of the categorical imperative to treat the humanity in a person as an end in itself and never as a means merely. To do that a firm must treat all its corporate stakeholders in a non-coercive and non-deceptive manner. I have also shown how management commitment to practices that provide meaningful work as I have defined it here is a plausible way to not just respect employees but to treat them in ways that enhance their positive freedom. In the context of business, meaningful work is a means to self-actualization. I have developed a concept of meaningful work consistent with Kantianism and tried to show how good management practice can be supportive of this Kantian vision of meaningful work. Thus Kant's ethics can inspire business firms to feats more noble than merely making money.

Notes

1 I. Kant, *Foundations of the Metaphysics of Morals*, 1785 L. W. Beck, Trans. (New York: Macmillan, 1990), 46.

2 Ibid., 52.
3 T. E. Hill Jr., *Dignity and Practical Reason in Kant's Moral Theory* (Ithaca, NY: Cornell University Press, 1992), 36–37.
4 I. Kant, *Foundations of the Metaphysics of Morals*, 36.
5 Ibid., 64.
6 I. Kant, *Critique of Practical Reason*, 1788, L. W. Beck, Trans. (Upper Saddle River, NJ: Prentice Hall, 1993), 33–34.
7 O. O'Neill, *Constructions of Reason* (Cambridge: Cambridge University Press, 1989), 53.
8 C. M. Korsgaard, *Creating the Kingdom of Ends* (Cambridge: Cambridge University Press, 1996), 167.
9 O. O'Neill, *Constructions of Reason*, 57, 59.
10 Ibid., 113.
11 N. E. Bowie with P. H. Werhane, *Management Ethics* (Malden, MA: Blackwell Publishing, 2005).
12 C. M. Korsgaard, *Creating the Kingdom of Ends*, 140, 141.
13 O. Williamson, "Corporate Governance," *Yale Law Journal*, 93 (1984): 197–230.
14 O. O'Neill, *Constructions of Reason*, 122–23.
15 Henningsen vs. Bloomfield Motors Inc. and Chrysler Corporation, *Atlantic Reporter*, 161, A2d.
16 S. Reynolds and N. E. Bowie, "A Kantian Perspective on the Characteristics of Ethics Programs," *Business Ethics Quarterly*, 14 (2004): 275–92. Several of the following paragraphs are adapted from that article.
17 I. Kant, *Metaphysical Elements of Justice*, 1797 J. Ladd, Trans. (Indianapolis, IN: Hackett Publishing Company, 1999).
18 L. K. Trevino, G. R. Weaver, D. G. Gibson, and B. L. Toffler, "Managing Ethics and Legal Compliance: What Helps and What Hurts," *California Management Review*, 41 (1999): 131–51.
19 J. Case, *Open Book Management* (New York: HarperCollins Publishers, 1995), 85–96.
20 Ibid., 45, 46.
21 "Open-book management," *The Economist*, June 8, 2009, at www.economist.com/node/13809344 (accessed March 4, 2016).
22 For example, see N. E. Bowie and R. F. Duska, *Business Ethics*, 2nd ed. (Englewood Cliffs, NJ: Prentice Hall, 1990).
23 T. L. Carson, *Lying and Deception* (Oxford: Oxford University Press, 2010), 48.
24 J. Henry, "Advertising as a Philosophical System," in *Ethical Theory and Business*, T. L. Beauchamp and N. E. Bowie, eds. (Englewood Cliffs, NJ: Prentice Hall, 1979), 470.
25 T. L. Carson, *Lying and Deception*, Chapter 6.

26 S. A. Greyser, G Heileman Brewing Co. (A): Power Failure at Powermaster, Harvard Business School Case 592-017, September 1991. (Revised December 1991.)
27 T. E. Hill, Jr. *Dignity and Practical Reason in Kant's Moral Theory*, 36–37.
28 Recall that an imperfect duty is one that you need to act on some occasions, but not *all* occasions. An imperfect duty should be distinguished from a perfect duty, which is a duty one must always act on whenever the duty is present. Thus, our duty not to lie is a perfect duty, but our duty to aid others is imperfect.
29 I. Kant, "Metaphysical Principles of Virtue," *The Mataphysics of Morals*, 1797, in *Kant's Ethical Philosophy*, 2nd ed., James W. Ellington, Trans. (Indianapolis, IN: Hackett Publishing, 1994), 43.
30 Ibid., 52.
31 O. O'Neill, *Constructions of Reason*, 114.
32 Ibid., 115.
33 At one time one could suggest that it is morally permissible for employers not to offer health insurance to smokers, but with the passage of the Affordable Care Act, that is not a legal option for many employers.
34 I. Kant, *Lectures on Ethics*, 1775, L. Infield, Trans. (Indianapolis, IN: Hackett Publishing Company, 1930) 160–61.
35 Ibid., 177, 181, 185.
36 United States Census data from 1967 to 2014 is available at www.census.gov/hhes/www/income/data/historical/inequality/. An analysis of this data is provided by The Center on Budget and Policy Priorities at www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality
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38 D. Jamieson, *Huffington Post*, www.huffingtonpost.com/2015/06/24/ikea-minimum-wage_n_7648804.html?ir=Politics&ncid=fcbklnkushpmg00000013 (accessed June 28, 2015).
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40 www.zaziesf.com/about/ (accessed February 19, 2015).
41 This information was taken from www.businessinsider.com/costco-pays-retail-employees-20-an-hour-2014-10 (accessed November 14, 2015).
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44 J. Schmitt, "Why Does the Minimum Wage Have No Discernible Effect on Employment?" Center for Economic Policy and Research, February 2013. A copy of the paper can be accessed at www.cepr.net/documents/publications/min-wage-2013-02.pdf

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46 J. Pfeffer, *Human Equation: Building Profits By Putting People First* (Cambridge, MA: Harvard Business School Press, 1998) and J. Pfeffer and R. I. Sutton, *Hard Facts, Dangerous Half-Truths & Total Nonsense: Profiting From Evidence-Based Management* (Cambridge, MA: Harvard Business School Press, 2006).
47 Z. Ton, *The Good Jobs Strategy* (New York: New Harvest, 2014).
48 I shall have more to say about the issue of executive compensation in Chapter 3.
49 J. Ciulla, "Worthy Work and Bowie's Kantian Theory of Meaningful Work," in *Kantian Business Ethics: Critical Perspectives*, D. G. Arnold and J. D. Harris, eds. (Cheltenham, UK: Edward Elgar, 2012), 115.
50 Ibid., 126, 127.
51 Of course, the notion of "worthy jobs" can be stretched to include nearly all jobs. The job of bank teller provides an opportunity for discussion. A bank teller does help people complete business transactions, but is that sufficient to fall under Ciulla's definition of worthy work? Arguably the job of bank teller does not fall under her definition. If so, the kind of business practices endorsed by Pfeffer could make the job of a bank teller more meaningful even if not more worthy.
52 J. R. DesJardins, "Meaningful Work," in *Kantian Business Ethics: Critical Perspectives*, D. G. Arnold and J. D. Harris, eds. (Cheltenham, UK: Edward Elgar, 2012), 135–36.
53 Ibid., 130–41.
54 Ibid., 144.
55 Ibid., 145.

3 *The Firm as a Moral Community*

Creating the Kantian Moral Firm: The Kingdom-of-Ends Formulation of the Categorical Imperative

The third formulation of the categorical imperative is usually called the kingdom-of-ends formulation. Loosely put, this formulation of the categorical imperative says that you should act as if you were a member of an ideal kingdom of ends in which you were both subject and sovereign at the same time.

What did Kant mean? Kant recognized that human beings interacted with other human beings (ends). The arena of interaction was called the kingdom of ends. A business organization, like any other organization, is composed of individual persons, and since persons are moral creatures, the interaction of persons in an organization is constrained by the categorical imperative. This means that an organization, whatever its purpose, should be governed by morality. Because an organization is a community of persons, whatever else an organization is, it should be a moral community.

What are the laws that govern these interactions? Kant maintained that since those interactions were the interactions of human beings and not billiard balls, they should be governed by laws made by human beings. Thus, the laws that govern the interactions of persons should be self-legislated. Any self-legislated law for human beings must be capable of being universal in the sense described in Chapter 1 and must treat the humanity of those with whom one interacts as an end and not as a means merely in the sense described in Chapter 2. In an organizational setting this requirement means that any law (rule or principle) a person proposes to govern the interactions of the organizational members must be acceptable to all. Part of the task of this chapter is to spell out just what is required by the phrase "acceptable to all."

A first pass enables us to interpret that phrase as follows: When the rules that govern the organization are acceptable to all, everyone in the organization would be sovereign with respect to the law. However, since the laws that govern the interaction of the members of the organization apply to all persons, members of the organization are also subject to the law. Thus, an organization passes the formal tests of morality if the rules that govern the interactions of the members of the organization are consistent with the first two formulations of the categorical imperative and can be publicly advocated and accepted by all. As Kant said,

> For all rational beings stand under the law that each of them should treat himself and all others never merely as a means but in every case also as an end in himself. Thus there arises a systematic union of rational beings through common objective laws. This is a realm which may be called a realm of ends … because what these laws have in view is just the relation of these beings to each other as ends and means.[1]

Whereas social scientists would look for the natural laws that govern these interactions (organizational behavior), moral philosophers would seek those norms that should govern such interactions. However, those moral norms include far more than the statements of the categorical imperative.

What Kant suggests is that we ask moral beings to act from laws that are publicly acceptable in the sense that they can be objective for every rational being. If the laws are publicly acceptable, then one can be both sovereign and subject with respect to moral laws – subject because one is bound to obey them and sovereign because they are laws of one's own choosing. Let us apply this to business. Since all persons in economic affairs are moral agents, they are equal with respect to possessing dignity and intrinsic value. Thus, in a business firm, organized as a moral community, the interests of every member of the community are equal to the interests of every other member. Our task in this chapter is to go from a purely formal analysis to some specific suggestions for management theory and organizational design. Borrowing from the title of a collection of essays by Christine Korsgaard, the task of this chapter is to show how managers should and could create the kingdom of ends within a business firm. This chapter will weave together insights from Kantian moral theory and some of the empirical work from organizational studies. Following Hill, I take the formula of the kingdom of ends to be a "heuristic model of the appropriate moral attitude to take when deliberating from basic moral values to moderately specific principles."[2] I then propose principles for the organization of a moral firm. These principles need to be consistent with the results in Chapter 2; that is, a firm should be managed so both the organizational rules and organizational structures are neither coercive nor deceptive and are supportive of meaningful work for employees. In other words, organizational rules and structures must support human freedom in both its negative and positive aspects as defined earlier. Finally, the organizational rules and structures must be fair to all corporate stakeholders.

As each of the principles for managing the moral firm are elaborated, I shall point out the implications of accepting these principles on organizational theory. For example, I shall argue that authoritarian hierarchical management forms cannot be justified on Kantian grounds, and neither can Taylorism or the extreme division of labor. Rather, managing from a Kantian perspective morally requires some democratization of the workplace. I shall provide some suggestions from organizational studies and from actual business firms to show what a democratized moral firm might look like. By citing the experiences of successful business firms I intend to deflect the charge that my account of the moral firm is hopelessly utopian.

If one were to take a Kantian moral perspective, the following principles for corporate policies and procedures would be appropriate and management would be on sound moral ground in following them.

Principles of a Moral Firm

1. The firm should consider the interests of all the affected stakeholders in any decision it makes.
2. The firm should have those affected by the firm's policies and procedures participate in the determination of those policies and procedures or have a means for endorsing those policies and principles before they are implemented.
3. It should not be the case that for all decisions, the interests of one stakeholder take priority.
4. When a situation arises where it appears that the interests of one set of stakeholders must be sacrificed for the interests of another set of stakeholders, that decision cannot be made on the grounds that there is a greater number of stakeholders in one group than in another.

5. No principle or process can be adopted that is inconsistent in the sense explained in the discussion of the universalizability formulation of the categorical imperative in Chapter 1. In addition, no principle or process can violate the humanity in the person of any stakeholder as explained in the discussion of the respect-for-persons formulation of the categorical imperative in Chapter 2.
6. The managers in every profit-making firm have an imperfect duty of beneficence to practice corporate social responsibility.
7. Each business firm must establish procedures to ensure that relations among stakeholders are governed by the rules of justice or fairness.

The Principles Explained, Applied, and Defended

Principle 1 seems like a straightforward requirement for any moral theory that takes respect for persons seriously. One way to put this is to ask what it means to take the moral point of view. Most philosophers agree that the moral point of view involves at least a commitment to take into account the interests of those affected by our actions. I see no reason not to take the conventional approach here. Of course, the difficult task for morality is to decide how to act when the interests of various stakeholders conflict; that is, when providing for the interest of stakeholder group x thwarts the interest of stakeholder group y. What can Kantian moral philosophy say about the ethical means for resolving this conflict?

First it should be noted that Kant would not require that there be one and only one answer here. As I keep emphasizing, Kant's moral philosophy should not be seen as a system of absolute moral rules to address all moral problems. All that is required is that whatever policy or principle is adopted, it cannot violate the categorical imperative in any of its formulations (Principle 5). However, any one of a number of policies or principles for making the trade-off might pass the tests of the categorical imperative. This result should be expected. As I argued in Chapter 1, Kantian ethics is really quite permissive. In the words of Dunfee and Donaldson, there is considerable moral free space.[3]

But, second, if there is no one principle or policy that necessarily would be rationally adopted by everyone, how can the principle or policy that is adopted be universal? Many businesspeople would respond by saying this is the kind of question that managers should decide. But as we have already seen in our discussion of management ethics programs, top-down directives would violate the autonomy of the employees, and having management decide these cases would violate the autonomy of all stakeholders. Principle 4 prohibits a manager from taking a utilitarian perspective where the interests of some simply could be sacrificed for the greater benefit that others might enjoy. What is required, as specified by Principle 7, is a fair decision process to settle such issues.

Since autonomy is what makes humans worthy of respect, a commitment to Principle 2 is required, and most scholars who apply Kant's philosophy to practical matters seem committed to it. Edmund Pincoffs wrote:

> Participation is an instrument by which the valuation of persons as ends in themselves is expressed. It is as if the Kantian principles were determinable in any number of ways, but participation is one of the ways in which it becomes determinate. It does not follow that mere participation is of value (though it may have value) but rather follows that participation is morally valuable to the degree that it makes determinate the moral principle that we should never treat a man as a mere means.[4]

Thus we have the justification of the second principle for managing a moral firm. The stakeholders affected by the policies and principles must have some input into the decision-making process. Just what this entails is discussed later in this chapter. It should be pointed out that the Rawlsian notion of shared ends and activities would require some form of participation as well. Thus, in the business context, all stakeholders should participate in decisions regarding the policies and principles that govern the firm. The issue still to be decided is how much and what kind of participation is necessary.

Principle 3, which requires that the interests of one set of stakeholders cannot have priority for all decisions, provides a kind of organizational legitimacy. It ensures that those involved in the firm receive some minimum benefits from being a part of it. After all, if one group of stakeholders were always to lose out whenever their interests conflicted with the interests of other stakeholders, the losing group would have no reason to be members of the moral community. Obviously, activities that were always detrimental to one group would not represent shared ends and common activities.

Principles 4 and 5 (the anti-utilitarian principle and the conformity to the categorical imperative principle) ensure that the principles and operating procedures of the firm are constrained by considerations of Kantian morality. Principle 4 rules out pure utilitarianism as a criterion for decision-making in the moral firm. The reason Kant rejects utilitarianism is because persons have dignity, which is beyond any price. Thus, the value of one person cannot be substituted for that of another. In addition, the kingdom-of-ends formulation of the categorical imperative requires that the basic rules and practices that govern an organization must be acceptable to all. For these reasons in Kantian moral philosophy the numbers are not the sole determinant of corporate policies and processes.

The justification for Principle 6 (the beneficence principle) is based on an extension of the individual's imperfect obligation of beneficence that we introduced in Chapter 2. Since the publication of the first edition of *Business Ethics? A Kantian Perspective*, some among the next generation of scholars applying Kant's moral philosophy to business have sought inspiration in Kant's *Metaphysics of Morals* and have used those insights to develop a Kantian theory of corporate social responsibility. Corporate social responsibility is now so important that I will devote a special section of Chapter 4 to the topic and to the contributions that recent Kantian business ethics scholars have made to that discussion.

In the first edition, I asked the following question regarding Principle 6: How do we get from individual obligations of beneficence to a firm's obligation of beneficence? I spent very little space dealing with that question. However, since the publication of the first edition, Matthew Altman challenged whether it was even possible to use Kantian ethics to develop notion of a firm's obligation.[5] It is clear that in this edition that challenge must be addressed, so after concluding the justification of the principles of a moral firm and providing some analysis of how a Kantian should look at a firm like a business corporation, I will turn to Altman's challenge.

An additional, and classic, challenge to an obligation of corporate beneficence is provided by Milton Friedman. Friedman has argued that managers of a firm have no obligation of beneficence because such beneficence would amount to stealing from the stockholders.[6] Corporate charity involves spending others people's money, namely the stockholders', for causes they have not approved. I have never found Friedman's argument convincing. Corporations such as Target are very transparent about their corporate giving. A trip to the home page of any major corporation will link you to the corporation's philosophy of charitable giving, and it is significant to note that most corporations large and small have some charitable giving program. Since a corporation's charitable giving is so transparent, any person buying the company's stock is, at least implicitly, giving his or her approval. Indeed, some individuals purchase the stock in a company because of its charitable giving program. However, Friedman's argument has enough sting so that managers almost always feel required to justify corporate charity on the grounds that such charity contributes to the bottom line. Whether justifying profits in this way causes difficulties for a Kantian theory of the firm is examined in Chapter 4.

It should be noted that there are positive arguments that can be given for a managerial obligation to practice beneficence. Two of the most common arguments are arguments from citizenship and arguments from gratitude. The argument from citizenship extends the notion that individuals have obligations to support the state. Corporations are institutional members of society. If individual citizens have an obligation to improve society – to leave the world better than they found it – corporations have an even stronger obligation. Why? Corporations, unlike individuals, were created through charters of incorporation and thus are totally dependent on society for their existence. Society created corporations because it believed that corporations were in the public interest. As times have changed, society has increased its demands on corporations, and one of the demands, which has gained favor, is that corporations practice social responsibility – that corporations contribute to the solving of social problems. If the justification for corporations in the first place is that they contribute to the public good, why shouldn't corporations adapt to changing public perceptions of the public good?

The argument from gratitude has much in common with the argument from citizenship. The gratitude argument focuses on the benefits that society bestows on corporations in addition to their existence. Society protects corporations by providing the means for enforcing business contracts. Society also provides the infrastructure that allows the corporation to function and in many ways subsidizes corporations. Society provides an educated workforce with both the skills and attitudes required to perform well in a corporate setting. Road, sanitation facilities, police, and fire protection are provided as well.

Of course, corporations do pay taxes for these services, but so do individual citizens, and that fact does not exempt them from the obligations of citizenship and gratitude. In addition, corporations take advantage of the competition that exists among the various states to win tax breaks and other amenities provided by the state. This competition among the states to attract corporations has a long history. In the 1950s and 1960s, the southern states with weak unions and weak laws protecting unions attracted industries such as the textile industry away from strong union states, particularly in the northeast. Since the publication of the first edition of this book, the United States has suffered from the dot-com crash in 1999 and then a major financial crisis and severe recession as a result of the financial crisis of 2008. That crisis created a spike in unemployment that just now seems to be ebbing. Thus, in recent years, the competition to attract business has been particularly intense. What this competition does is undercut the argument that it is sufficient for corporate beneficence that they pay their taxes.

There are cases where the tax breaks that corporations receive are greater than the charitable giving they provide. This issue is beginning to receive attention from politicians and even some serious empirical research. Questions regarding the extent and amount of tax breaks for corporations is bipartisan. For example *The Wall Street Journal* in a provocative headline "Business Subsidies Batter State Budgets" cited the following governors and other political leaders who were beginning to question these subsidies: Michigan Governor Rick Snyder (R), Oklahoma Speaker of the House of Representatives Jeff Hickman (R), and Louisiana chief legislative economist Greg Albrecht.[7] A report by the Pew Charitable Trust indicates that ten states and the District of Columbia have passed laws requiring an evaluation of state tax subsidies to business.[8] If businesses receive more than they give, they have even less of an argument against contributing to solving social ills.

It should be noted that these arguments from citizenship and gratitude are consistent with Kant's argument for the duty of beneficence. Kant's argument in the *Metaphysical Principles of Virtue* is that we need the help and love of others, so as a matter of consistency we have an obligation of beneficence to others.

> That beneficence is a duty results from the fact that since our self-love cannot be separated from our need to be loved by others (to obtain help from them in the case of need), we thereby make ourselves an end for others; … hence the happiness of others is an end which is at the same time a duty.[9]

If we talk about benefits received and benefits needed rather than love, what Kant's argument shows is that the corporation has in fact received benefits from society, that the corporation needs those benefits – for example, a state to enforce contracts – and more controversially that a corporation's tax payments do not adequately compensate for the benefits received. Thus, the obligation to assist society in return applies not only as a theoretical possibility but in fact.

That brings us to Principle 7. Principle 7 is a procedural principle that requires a notion of procedural justice or fairness for organizational relations. John Rawls provided a significant account of justice as fairness in his classic book *Justice as Fairness*. That work formulated principles of justice that applied to the basic structure of society. Rawls himself did not extend his theory to the organizational level – to business. Since the turn of the century some business ethicists have applied Rawls's theory to business organizations in a fruitful way. The most prominent person in that regard is Nien-he Hsieh. Two of his articles use the framework from Rawls's late work, *The Law of Peoples*, to argue for obligations on transnational corporations operating in underdeveloped countries. His "The Obligations of Transnational Corporations" uses the Rawlsian framework to argue for a limited duty to assist those living in undeveloped countries where they operate, as well as both negative and positive duties with respect to human rights.[10] I shall provide a Kantian perspective on these transnational duties in Chapter 5. In his "Does Global Business Have a Responsibility to Promote Just Institutions?" Hsieh uses that framework to argue that transnationals have suitably constrained obligations to support just institutions in host countries.[11] Hsieh also uses *Justice as Fairness* to argue in "Rawlsian Justice and Workplace Republicanism,"[12] for "a basic right to protection from arbitrary interference at work."[13] It should be noted that Hsieh is explicit in saying he is not trying to provide a Rawlsian framework for workplace democracy. For Hsieh, workplace democracy involves an employee right to participate in the governance of economic enterprises on the basis of a right to exercise control over the means of production. Rather, Hsieh is trying to use

Rawls to provide a normative ground for controlling arbitrary management interference and to contest managerial directives. Hsieh sees the essence of republicanism in the political sphere as constraint on the state's exercise of discretionary power and the guarantee of a citizen's right to contest decisions made by the state.[14] When this right is provided in the economic sphere, we have what Hsieh calls workplace *republicanism*. I think that a theory of participation and workplace rights under Rawls is more limited that under a theory of Kantianism, because as Hsieh says, for Rawls rights regarding the ownership and governance of economic enterprise are not basic rights.[15] I do not think ownership is a necessary condition for workplace democracy as that condition is currently understood. Some form of governance is a necessary condition, however, and I have argued that some form of governance in the workplace is required by Kantian morality.

The aforementioned considerations show that even if Rawls did not apply his account of justice as fairness to organizations, other scholars working in disciplines other than philosophy have made important contributions to what counts as justice in organizations. Indeed, there is a branch of organizational studies that goes by the name of organizational justice theory. Much of this interdisciplinary work is consistent with Kantian moral philosophy and deserves our attention here.

Procedural principles of justice are particularly important when employees are evaluated. Evaluations should be conducted in ways that respect the humanity of those evaluated. Empirical results in organizational studies have shown that persons want to be evaluated in the way that Kantian moral theory says they should be evaluated. In the organizational justice literature, procedural justice refers to the perceived fairness of the policies and procedures used to make decisions. William Ouchi has given a procedural justice interpretation to fair participative decision-making as follows:

> The group can be said to have achieved a consensus when it finally agrees upon a single alternative and each member of the group can honestly say to each other member three things: 1. I believe that you understand my point of view. 2. I believe that I understand your point of view. 3. Whether or not I prefer this decision, I will support it because it was arrived at in an open and fair manner.[16]

What people perceive as fair is consistent with how Kantian moral theory says people ought to be treated. Employees believe that work procedures are unfair if an employee is not treated with dignity and respect. Summarizing studies by a number of organizational justice theorists, Jerald Greenberg says, "It is reasonable to interpret all these findings as showing the same thing: namely that fairness demands treating others with civility and dignity."[17]

More specifically, G. S. Leventhal argued that procedures are fair if they meet several criteria: the extent to which they suppress bias, create consistent allocations, rely on accurate information, are correctable, represent the concerns of all recipients, and are based on prevailing moral and ethical standards.[18] Unfortunately the number of studies testing Leventhal's concept are limited. However, it has been shown that judgments of procedural fairness are most importantly influenced by the interpersonal treatment people receive and the adequacy with which procedures are explained.[19] Numerous studies have shown that there is a correlation between perceptions of fairness in performance evaluation and the opportunity to express opinions during the course of a review. Indeed, a refinement on the notion of input showed that employees wanted input prior to evaluation, two-way communication during the review, the ability to challenge the review, greater familiarity with the employee's work, and consistent application of standards.[20] Another study showed that honesty, courtesy, timely feedback, and respect for rights were the most important factors in interpersonal treatment.[21] In yet another study Sheppard and Lewicki established the importance of "providing adequate information" and "assigning challenging and meaningful work" as components of perceived fairness.[22] One of the most important findings in the organizational behavior literature is that people would accept bad results if they were responsible for the procedures that produced those results.[23]

Of course, the fact that people will likely accept adverse results if they have been involved in or consulted on the setting of the procedures does not mean that their acceptance is justified. For example, an obvious key to a just procedure is impartiality. A just procedure cannot be biased in a direction that shows self-interest or that uses criteria unrelated to merit. However, there is no evidence of bias in these studies. What I find interesting is the important role that fairness plays in both moral theory, including the moral theory of Kantians, and in how non-philosophers confront instances of fairness or unfairness in business life. Even some economists have recognized the importance of fairness.

In an economic transaction where both parties benefit, Robert Frank has suggested a 50/50 split.[24] Frank's principle cannot be directly applied to business organizations, because we need to consider not only the fairness in the distribution of an organization's outputs but also the contributions each individual makes to the organization. Frank's principle can be supplemented by a proposal from Robert Phillips. Phillips adopts a proportionality principle where the rewards are distributed according to the proportion of one's contribution.[25] Since both Frank's egalitarian principle and Phillips's proportionality principle have an intuitive appeal, they can be reconciled into a combined principle for the distribution of the fruits of economic and business activity. Where contribution can be measured, the reward should be proportional to the contribution made. Where there is a surplus of value as a result of the cooperative endeavor of all, those cooperating should share the surplus equally.

Although the research on measuring returns on the basis of productivity is beyond my range of expertise, most economists and statisticians have argued that over the past twenty years, most of the surplus value from corporate activity has gone to the managerial class and to the owners of capital. The wages of mid- and low-level employees, when measured against inflation, have stagnated and even declined in certain situations. For example, data from 1948 to 2011 shows that productivity and hourly compensation for production non-supervisory workers rose in tandem from 1948 through 1973. Then the two began to diverge, with productivity rising rapidly from 1973 to 2011 while hourly wages rose only slightly.[26] This disparity is a worldwide phenomenon, as pointed out in the November 2, 2013 *Economist* article. That article points out that if the income to the top 1 percent is excluded, the share going to labor has declined by 4.5 percent.[27] To the extent that this is an accurate characterization of the distribution of reward, it is unfair and unjust and provides yet another argument for an increase in the minimum wage.

This inequality issue is most associated with the claims that executives are overpaid. Between 1978 and 2011, the average CEO pay rose 1000 percent, adjusted for inflation. During that same period, the average worker saw a pay increase of just 11 percent. As a result, the ratio of CEO pay to the average worker reached 303 to 1. In 1965, it was 20 to 1.[28] There are a number of explanations for high executive compensation. Some of these result from the way the process for determining executive pay works out. A common way of defending executive compensation is to appeal to the market. Executive compensation is simply a working out of the law of supply and demand. But a careful look at how executive pay is determined undermines that justification. Executive compensation is set by the compensation committee of the board of directors. Since most boards of directors are composed primarily of other CEOs, the compensation committee is also composed primarily of other CEOs. Thus, there is an obvious bias in favor of higher compensation, since people have a cognitive bias toward overvaluing their personal contribution and of blaming their shortcomings either on others or on factors beyond their control. Consequently, compensation committees will tend to over-reward CEOs. In addition, compensation committees look at the salaries of other CEOs and then reward their own CEO by giving him or her a higher salary than the average. This creates an increasing spiral of higher compensation. Garrison Keillor of *The Prairie Home Companion* refers to this as the Lake Wobegon effect where all the children are above average.

Another perverse procedure is the attempt to motivate executives to put the interests of the stockholders ahead of their own. This is done by trying to align the interests of the executive through financial incentives, especially stock options. However, the use of stock options may have the unintended consequence of promoting unethical behavior. In their path-breaking research, Jared Harris and Philip Bromiley examined the effect of granting stock options on the likelihood that the firm would need to produce an accounting restatement due to misrepresentation. Using a matched sample data set, they found two similar companies in which one had experienced an accounting restatement due to an accounting irregularity and one that had not. The U.S. General Accounting Office provided the data on accounting irregularities. Harris and Bromiley showed conclusively that granting a large amount of stock options significantly increased the likelihood of accounting misrepresentation, whereas comparatively smaller bonuses did not have that effect. What distinguishes the finance approach to executive compensation is the emphasis on individual self-interest where means must be found to control it from the Kantian approach is that the Kantian would argue that managers should seek to profit the stockholders because it is the right thing to do. Such a moralistic approach may seem naïve in light of the observed fact that self-interest is such a strong motivating principle. However, Harris and Bromiley's research shows that self-interested attempts to overcome self-interest can have the unintended consequence of promoting unethical behavior that can negatively impact the profitability of a firm.

We have now reached the point where we have examined the three major formulations of Kant's categorical imperative. In the process of interpreting them, the richness of Kantian theory when applied to business is evident. As we have explained and defended the seven principles for a firm managed by Kantian ideals, we have seen how having the right procedures and processes contributes to individual autonomy, respect for the humanity in the person of stakeholders, and the building of a business organization that is managed with moral integrity.

The Nature of Organizations, Leadership, and Reciprocity

The seven principles for managing a moral firm place morality in an essential spot for management tasks. But employees have obligations to a moral firm as well. If a firm really does provide meaningful work in the full sense described in Chapter 2, employees should view the firm as a moral community and act accordingly. That would require a major change in attitude. In too many firms employees do not see work as a means to self-realization, but rather as drudgery when we speak of "blue Monday," see Wednesday as a "hump day" (halfway to Friday), and wait to say "TGIF." Thus, Kantian moral philosophy requires changes in both management behavior and employee behavior.

A Kantian must reject a purely instrumental view of organizations. I believe this follows from Kant's notion of the kingdom of ends and his theory of respect for persons. The best quotation distinguishing an instrumental view of organizations from a moral view of organizations as a means for carrying out the shared purposes of persons is from John Rawls. What I am referring to is Rawls's concept of a social union in the last third of *A Theory of Justice*. Rawls argues:

> Thus we are led to the notion of a private society. Its chief features are first that the persons comprising it, whether they are human individuals or associations, have their own private ends which are either competing or independent, but not in any case complementary. And second institutions are not to have any value in themselves, the activity of engaging in them not being

counted as a good but if anything a burden. Thus each person assesses social arrangements solely as a means to his private ends.... The social nature of mankind is best seen by contrast with the conception of private society. Thus human beings have in fact shared final ends and they value their common institutions and activities as goods in themselves. We need one another as partners in ways of life that are engaged in for their own sake, and the successes and enjoyments of others are necessary for and complimentary to our own good.[29]

Institutions that embodied these common activities and shared final ends were called social unions, and the just society should be a social union of social unions. There does seem to be a great similarity between Kant's notion of the kingdom of ends and Rawls's concept of a social union, whatever the other differences in their philosophies. When an organization is viewed as an instrument for the achievement of one's own ends, then it appears that a person is simply using the organization, and thus using the people in the organization for their own ends. This would violate the second formulation of the categorical imperative. To avoid such a violation, the members of the organization would have to agree on the norms that are to govern the enterprise and their treatment of each other. But such an agreement transforms the organization into a sphere of cooperative activity – at least to a minimal extent. The association of persons is no longer simply a private society. In the context of the business enterprise part of what it means for a business to be a kingdom of ends is that it should be viewed as a social union, or a moral community.

Most organizational theorists try to remain social scientists and describe how organizations are; they do not prescribe how organizations should be. One major exception to this view was Harvard Business School's Chris Argyris. Argyris's work was in the area referred to as personality and organization theory (P and O theory). The focus of this research is to show how organizational design affects human behavior, especially human behavior in the workplace. However, Argyris argued that P and O research need not be limited to how people behave in extant business organizations. Rather,

Man should be studied in terms of what he is capable of, not only, how he actually behaves. In the case of P and O theory, for example, the researcher could conduct research on worlds that would permit greater expression of the adult ends of the continua [autonomy, self-actualization, and a long-range time perspective].[30]

In business terms, what might one of these alternative worlds look like? According to Argyris, one such world would be one "where trust, openness and individuality are able to predominate."[31] In his 1964 classic *Integrating the Individual and the Organization*, Argyris was extremely sensitive to the charge that management theory is often used to manipulate members of the organization. But he clearly saw the business organization as capable of providing meaningful work in the sense defined in Chapter 2. He said:

> Happiness, morale, and satisfaction are not going to be highly relevant guides in our discussion. Individual competence, commitment, self-responsibility, fully functioning individuals and active, viable, vital organizations will be the kinds of criteria that we will keep foremost in our minds.[32]

Argyris's normative perspective is clearly consistent with constructing a Kantian kingdom of ends in the business world.

What I am suggesting here is that business organizations need to be viewed as cooperative enterprises that add value to their stakeholders. You do not get the synergies from cooperation if each stakeholder simply sees the business as a means to his or her end. Business schools recognize the importance of cooperation with their emphasis on teamwork. From the side of Kantian morality, an appropriate way to look at a business is to see it as a kingdom of ends, as a social union. In a social union, each stakeholder is to be treated with respect. P and O theory provides insights from psychology concerning ways that people can be shown respect. An important key is the building of trust. As we saw in Chapter 1, building trust is a managerial obligation, since trust is necessary for profitability, and seeking profit is a managerial obligation. Thus, the analysis in these three chapters works together. Insights about creating a more democratic workplace and providing meaningful work are insights that enable stakeholders to transform a business organization into a financially and morally successful kingdom of ends.

So far nothing has been said about leadership in businesses viewed as cooperative enterprises. Obviously the leader must view the corporation as a cooperative enterprise rather than as a means to his own financial enhancement. Otherwise there is a misfit between the company culture and the values of the leader. Of course, agency theorists have looked at leadership as an agency problem where incentives should be aligned so that the self-interest goals of the leader are in tune with the interests of the stockholders. However, a Kantian looks at leadership in a very different way. A Kantian leader cannot look at the organization she leads as simply instrumental for her own interests. A genuine moral action must be done from the proper motive: out of duty or because it is right. But there is more to Kantian leadership than that. The points that follow are from an earlier article in which I developed an account of Kantian leadership.[33]

A Kantian leader supports the development of autonomy both in his followers and in himself. The implementation of such a commitment requires that the leader turn followers into leaders. In other words, the leader transforms the relationship in an organization so that those who had been followers could now be considered leaders.

This account of leadership can be grounded in the focus of this chapter – the kingdom-of-ends formulation of the categorical imperative. As we have said, there is a sense in which the rules that govern an organization must be acceptable to all. Many think of the leader as the boss – as the person who makes the decisions. A Kantian does not accept that view. To be consistent with the kingdom-of-ends formulation of the categorical imperative, the leader is a decision proposer rather than a decision imposer. The leader in an organization can propose ends as well as the means for reaching those ends. He or she can propose decision-making rules as well. But the leader should not order these things or impose them on the basis of his or her power. In management terms, the leader creates the conditions for participative management. In less scholarly terms, the Kantian leader gets buy-in. But the buy-in is not based on charisma or on the power of the position. Rather, it is based on the merits of the proposal. The rules that govern human interactions should be rules that are acceptable to all.

But isn't participative management the abandonment of leadership? And if it weren't, wouldn't such leadership lead to chaos? If you need universal buy-in for every decision that is made in an organization, you have anarchy, and the organization will surely fail. That is certainly true, but universal buy-in is not required for every decision under a Kantian theory of leadership. We need to distinguish among the following:

1. the individual decision, e.g., how many motors should we order;
2. the norm for making a decision, e.g., should that decision be left to the purchasing department; and
3. how we should decide how the norms in (2) should be established.

At a minimum, I think a Kantian theory of leadership requires that the norms in (3) meet the conditions of the third formulation of the categorical imperative. Respecting a legislator in the kingdom of ends requires at least that much. Moreover, I think that as an ideal, the Kantian leader should get assent for the norms and decisions as often as possible and as far down into the organization as possible.

There are many issues here, not all of which can be addressed at this time. What about new employees? I would argue that they give implicit assent to the norms and procedures of the organization when they join up so long as these norms and procedures are transparent. Also, individuals can give decision-making power to representatives. Thus, union members give their officials the power to bargain on the wages and working conditions of the firm. Participating through representation, so long as it is honest and transparent, is permissible in a Kantian firm, because the autonomy of the workers is respected in a representative system. Kant considers a representative republic to be legitimate. As for the charge of anarchy, a historical example might show how anarchy is not the inevitable result of participative management or of the view of the leader as one who turns followers into leaders.

The Harvard Business School case ABB's Relay Business[34] is often used as a case study for the development of the matrix organization, but it can also be used as a case study for a Kantian theory of leadership. Here is how the case unfolds: the CEO of Asea Brown Boveri (ABB) is Percy Barnevik. In this case, Barnevik is the person who exemplifies leadership. Yet after page two, Barnevik disappears and is never heard from again. However, this HBR case is twelve pages long, excluding appendices. If this case is about Barnevik's leadership, where is he? In an important sense Barnevik is always there because all the others became leaders through his leadership style. By page two, the actor on the center stage is Goran Lindahl, Asea's executive vice-president. As the case unfolds, it is clear that Barnevik has made Lindahl a leader. For example, Lindahl is responsible for communicating the new philosophy and principles, including the guiding principle of decentralization. He also wanted to emphasize the importance of individual accountability. He delegated a series of tasks to managers at lower levels. By page six, Lindahl disappears, and Ulf Gundemark, who becomes ABB's business head for the worldwide relay business, is at the center of action. Leadership is being pushed down the organization chart. A focal point event in this case centers on the allocation of export markets. The Swiss company has been given responsibility for coordinating sales in Mexico, but a dispute arose concerning shortening the company's lines to its customers and minimizing the non-value-added work in the system. Gundemark delegated this to a team of four marketing managers. After much negotiation, they reported back to Gundemark that they could not reach a decision. Rather than make the decision himself, Gundemark sent them back for further discussion. Several days later, after exhausting negotiations, they reported that they had reached a majority decision of three to one. Gundemark wanted a unanimous decision and sent them back yet again. Finally, after three more days of intense negotiations, the marketing team came back with a unanimous recommendation. Talk about a decision where you are subject and sovereign at the same time. A Kantian leader, contrary to popular stereotype, is not one to whom you look for a decision. The Kantian leader empowers others in the organization to take responsibility for making a decision. In so doing Barnevik, at least in part, exemplifies what it means to be a Kantian leader.

What this example is meant to show and what I am arguing is that the basis of a Kantian theory of leadership is autonomy. What should the relation of a Kantian leader to his or her followers be? The leader should enhance the autonomy of his or her followers. At the extreme, the leader transforms followers into leaders. The leader drives leadership down through the organization by making people at lower levels in the hierarchy decision-making leaders themselves rather than mere followers.

Yet another issue that needs to be addressed is the duty of stakeholders such as employees and customers to be loyal to the managers and indeed to the corporation itself. In other words, do stakeholders such as these have duties to the top management of the corporation and even to the corporation itself? I first raised this issue in an article published in *Business Horizons* in 1991. In that article, I argued:

> Moral obligations are reciprocal. In addition to the obligations of managers, what of the obligations of the employees, customers, or the local community to the firm (firm's management? … [B]usiness ethicists seldom criticize employees who leave a corporation on short notice simply to get a better job. Business firms argue that they invest huge amounts of money in training new

employees and losses from turnover are very high. Sometimes the employee might have been given educational benefits or even paid leave to resolve personal problems such as alcohol or drug abuse. Others may have received company financial support for further education-perhaps even an MBA. Yet these employees think nothing of leaving the proven loyal employer for a better job elsewhere. As managers often remind us, loyalty is not a one way street.[35]

In that article I also pointed out that some firms, such as the Dayton Hudson Corporation (now Target Corporation), gave away 5 percent of their profits to charity. I then raised what to me seemed the obvious question: Don't consumers, other things being roughly equal, have a moral obligation to shop at Target rather than at competing firms that do far less in terms of giving back to the community?

If a firm is seen as a mutually cooperative relationship among the firm's stakeholders, then all the stakeholders are bound together in reciprocal relationships. A Kantian would argue that just as the managers have obligations with respect to the stockholders and the other non-managerial stakeholders, these other stakeholders have obligations to the managers. Stakeholders are most likely to honor those obligations when the stakeholders view the corporation as a cooperative venture for value creation rather than simply as a means for economic exploitation. A common way of expressing this idea is to argue that all the stakeholders have a duty of loyalty to the corporation. For any stakeholder, say an employee or customer, to take advantage of the corporation for his or her own interest is to act as a free-rider. After all, if each stakeholder acted in this way, then the advantages that all gain from viewing the corporation as a cooperative entity for value creation would be lost. And we know from the arguments in Chapter 1 free-riding involves a violation of the universality formulation of the categorical imperative.

If one moves from Kant to a Kantian such as Rawls, there are additional reasons for saying that the corporate stakeholders have duties to the corporate management and to the corporation itself. The beginning of this argument can be found in the general duty to do one's part to contribute to the common good. This duty is premised on the fact that a civil order is in the interest of all citizens and that citizens benefit from being in a civil society rather than in a state of nature. Think Hobbes here. If one partakes of the benefits of a civil society, then one has an obligation based on fairness to support it. Otherwise one would be a free-rider. Although Rawls provides a contractarian theory of justice, there is a place in his system for natural duties. One of the natural duties is the duty of justice. "This duty requires us to support and to comply with just institutions that exist and apply to us. It also constrains us to further just arrangements not yet established, at least when this can be done without too much cost to ourselves."[36] Since Rawls asserts that this principle is a natural duty, one might not think it needs justification. But a natural duty is simply a duty we have without undertaking any voluntary act to be subject to it. However, the duty can be justified because it is coherent with principles chosen in the original position, while alternative principles are not coherent. The details of Rawls's argument are beyond the scope of this book.[37]

Rawls then applies the principle in a political context:

> For example, consider the case of a citizen deciding how to vote between political parties, or the case of a legislator wondering whether to favor a certain statute .... As a rational citizen or legislator, a person should, it seems, support that party or favor that statute which best conforms to the two principles of justice.[38]

Voting in this way is how one honors the obligations of the natural duty of justice. And it is rational to behave this way because the reasoning process in the original position shows that the two principles of justice are in the best interest of everyone and would be adopted in the original position.

But acting on the natural duty of justice is rational in another way as well. So acting is mutually supporting. People are influenced by the behavior of others. If others see fellow citizens acting on a sense of justice, others are more inclined to act justly as well. In that way acting on a sense of justice leads to stability within the society. As Rawls said,

> We noted that in a well ordered society the public knowledge that citizens generally have an effective sense of justice is a very great social asset. It tends to stabilize just social arrangements.... But in a well-ordered society these bonds extend rather widely, and include ties to institutional forms ... In addition, we cannot in general select who is to be injured by our unfairness. For example, if we cheat on paying our taxes, or if we find some way to avoid doing our fair share for the community, everyone is hurt, our friends and associates along with the rest.... Thus in a well ordered society where effective bonds are extensive both to persons and to social forms, we cannot select who is to lose by our defections, there are strong grounds for preserving one's

sense of justice. Doing this protects in a natural and simple way the institutions and persons we care for and leads us to welcome new and broader social ties.[39]

Let us now adapt this Rawlsian framework to a discussion of Kantian corporations. By a Kantian corporation I mean a corporation that meets the conditions of Kantian morality set out so far. First, it must be pointed out that Rawls assumed perfect compliance theory in this analysis. That is, he assumed that people in a just society would, out of a sense of justice, support just institutions. For the most part he did not theorize about how we ought to deal with conditions of partial compliance theory – that is, with conditions where there is only partial compliance with the demands of justice.[40] Of course, we are not assuming perfect compliance. However, this assumption should not hinder our analysis, because I take seriously the second part of the natural duty of justice, namely that we are to "further just arrangements not yet established, at least when this can be done without too much cost to ourselves." Most of my specific analysis of what stakeholders other than managers ought to do rests on the second piece of Rawls's natural duty of justice.

So how specifically does this all apply to Kantian corporations? I assume that some corporations are managed along Kantian grounds and that others are managed in ways that encourage the corporation to be used as merely an economic means, even if that is not the specific intent. Incentives matter, and how the stakeholders view the corporation matters. That is true even if top management does not realize any of this. We can rephrase Rawls's argument: There is a natural duty to support corporations organized along Kantian lines, and where corporations do not behave in that way, it is our duty to reform them when this can be done without too much cost to ourselves. The justification for this duty is similar to the justification given by Rawls for the natural duty of justice. Since a business community of Kantian corporations yields the most social good, it is rational to support that type of business community. To accept the benefits of Kantian businesses without accepting the burdens (such as paying a higher price) is unfair, especially when this can be done with little cost to oneself. Acting on these obligations encourages similar actions by others and thus makes the achievement of a Kantian business culture more likely. This process supports Kantian business in a way similar to how the natural duty of justice supports stability in political life. Just as there is an obligation to support those institutions that really do contribute to a just society, there is a similar obligation to support Kantian businesses.

An implication of this argument is that if company A is Kantian and company B is not Kantian, then there is an obligation to support company A. This situation is similar to the citizen who must choose between political parties or to the legislator who must choose between alternative statutes. And since this is a natural duty, it is independent of any voluntary action of any of the stakeholders. Thus, a contractual assumption of this obligation is not required.

Throughout much of this chapter I have been speaking as if the corporation itself is a moral agent and that its activities could be judged on moral grounds. Most recently I have spoken about duties that stakeholders have to the corporation itself. However, speaking in this way is controversial, and several business ethicists have argued that a corporation is not a moral agent and that stakeholders cannot have duties to the corporation per se. It is time to consider these views in detail.

Can Kantian Moral Theory Apply to an Organization?

Philosophers began to take business ethics seriously during the 1970s, and one of the first topics that received attention was the issue of corporate personhood. The question under consideration was whether a corporation could be properly understood as a moral agent. One might think this is a fairly straightforward question, but in discussions with Kendy Hess, I realize that the discussion around corporate agency often conflates seven questions. Hess distinguishes the following questions:

1. Does a corporation qualify as a moral agent?
2. Does a corporation have moral obligations (prospective/forward-looking)?
3. Does a corporation have moral responsibility (retrospective/backward-looking)?
4. Can a corporation be held morally responsible?
5. Should a corporation be held morally responsible?
6. Is a corporation subject to moral evaluation?
7. Does a corporation have rights?

In the first edition of this work, I pretty much finessed the question of corporate moral agency. In other words, I just assumed that the answer to questions 2–7 was "Yes" and that I need not address question 1. As a practical matter, corporations are treated as if they were persons both in the law and in matters of public policy. *Black's Law Dictionary* defines a corporation as an "artificial person" that is "distinct from the individuals who comprise it" and has a "personality and existence distinct from that of its several members."[41] Given the way the law and regulators treated corporations, I said the following in the first edition:

> How do we get from individual obligations of beneficence to a firm obligation of beneficence? To avoid metaphysical issues concerning the existence of organizations independent of the members that make them up, let us appeal to conventionalism here. Both in ordinary language and in legal language we speak of firms having various rights and duties. Thus Sears the firm has a right to have customers who have purchased Sears products on credit pay their bills. We also say that Sears the firm should not deceive its customers in its advertising. Thus, we have linguistic warrant for speaking of the rights and duties of firms.[42]

Thus, I tried to avoid the entire debate about corporate personhood and moral agency. However, in 2007, Matthew Altman published a paper that considered my use of Kantian theory specifically and argued that Kantian ethics could not be applied directly to a business firm. In other words, I could not use Kantian theory to hold a corporation itself directly responsible. Altman puts it this way:

> His [Kant's] account of how we are bound by the categorical imperative depends on a particular conception of moral agency that precludes collective responsibility and, more specifically corporate responsibility. Although a business can act, its actions can only be judged morally with reference to the reasons held by particular business people. Thus the applicability of Kant's philosophy to business ethics is limited, because it cannot make sense of the moral obligations that constrain the corporation as a whole.[43]

I no longer think I can finesse the question of corporate agency as I had done in the past. Not only must I consider Altman's personal challenge, but Milton Friedman, as Altman points out, also challenged the notion that you could speak of corporate social responsibility because a corporation is not, on Friedman's view, a moral agent.

> What does it mean to say "business" has responsibilities? Only people have responsibilities. A corporation is an artificial person and in this sense may

have artificial responsibilities, but "business" as a whole cannot be said to have responsibilities even in this vague sense.[44]

What I think is happening here is that Friedman is denying that corporations have a moral responsibility to be socially responsible because a corporation cannot be an agent and thus cannot be a moral agent and thus should not be held morally responsible. Friedman thinks that a negative answer to Hess's question 1 entails a negative answer to Hess's questions 3 and 6. (As a matter of fact, I think Friedman thinks that a negative answer to 1 is sufficient for a negative answer to all the others.) However, what is needed is an argument to show that a negative answer to question 1 entails a negative answer to any/all the others.

In addressing Friedman and Altman's challenge, I begin by saying that even if corporations per se are not moral agents and thus Kantian moral theory cannot apply, that really does not limit the application of Kantian theory all that much. For argument's sake, suppose Altman and Friedman are correct. We cannot speak of corporations as moral agents and thus, as Altman argues, Kant's categorical imperative cannot be applied to corporations. How much of my analysis would change? Since both Friedman and Altman agree that individuals are moral agents, many of my references (and the references of most business ethicists) to "evaluating the firm" or to "the obligations of the firm" are just shorthand for evaluating the managers of the firm or to the obligations that managers of the firm have to various stakeholders. My guess is that nearly 90 percent of the comments in the first edition where I spoke about holding a corporation responsible are just shorthand for holding a number of individuals in the corporation responsible or could be interpreted that way if I assumed Altman was correct. However, in this edition, I have been more careful and refer to the obligations of managers wherever I can.

A great deal of Altman's challenge is blunted by this move, but not all. Business ethicists want to do more than evaluate the individual actions of managers; they also want to evaluate corporate policies and procedures, and neither corporate policies nor procedures are persons or individual actors. In addition, there is widespread scholarly research on organizational culture and in the business ethics literature, both a philosophical and an organizational theory empirical literature, on moral climates or ethical cultures. A comprehensive Kantian theory of business ethics must be relevant to evaluating both corporate policies and practices and corporate moral climates or ethical cultures. And I do really want to apply Kantian moral theory at the organizational level and argue that a corporation can be morally evaluated as a corporation. In terms of Hesse's questions, I certainly want to give affirmative answers to questions 2–6. I need to show how all that is possible.

There are a number of ways to respond to Altman and others who deny that a corporation can be a moral agent, that it can be held morally responsible, and that its actions can be morally evaluated. First, I do want to say a bit more in favor of the linguistic argument by putting a Kantian transcendental twist to the argument. Language tells us something about how we view the world. In many respects we view corporations as agents – as financial agents and even as having rights such as free speech, courtesy of the U.S. Supreme Court.[45] We commonly refer to corporations as having duties and we morally evaluate their corporate cultures. To explain these linguistic conventions, it might be useful to consider Kant's strategy for arguing for free will. Kant used a kind of transcendental linguistic argument for freedom. He said that we must speak and think as if we were free even if we cannot prove it. Otherwise we could not make sense of practical reason and the demands of morality. Moral phenomenology requires that human beings be free. Why can't we use a similar Kantian-type transcendental linguistic argument to show that we must think of tribes, families, universities, corporations, and other collectives as agents if we are to make sense of these entities at all, or at least to make sense of how we treat and speak of them? How can we speak of loyalty to corporations or universities if these organizations are not agents? What are all those football fans doing if not showing their loyalty to their university?

Second, I now consider Altman's general strategy and argue that if his view of the requirements for application of the categorical imperative are accepted, Kantian moral theory becomes unreasonably limited in all circumstances, including in circumstances where Altman himself is willing to apply Kantian theory. In so doing I will show how the categorical imperative can apply to procedures and policies independently of the person or persons who created the procedures and policies.

Before turning to that task, let me get one of Altman's criticisms out of the way. In criticizing my account of how individuals should view a corporation, Altman says that I am in the following bind. His argument seems to be as follows:

1. Bowie claims that a corporation is a moral agent.
2. If a corporation is a moral agent, then we have obligations to businesses, since moral agents are worthy of respect.
3. Yet in discussing an organization as a kingdom of ends or a social union, Bowie claims that we cannot use the people in the organization as a means to our own ends.

Holding 1 and 3 puts me in a bind, Altman claims. Altman goes on to claim:

> There are two problems with this approach. First Bowie does not have an argument for why using the business would necessarily amount to using the people who work for the business.... Second if a business is capable of responsibility then it would be wrong to use it merely as a means regardless of whether the people in the business were also used.[46]

In terms of what I said in the first edition with respect to looking at a business as a kingdom of ends or as a cooperative enterprise, I did not assume that a corporation was a moral agent. Thus, I never explicitly endorsed premise 1 in that discussion. I still maintain that we can be agnostic as to whether a corporation is a moral agent when discussing how individuals should view an organization. The whole point of rejecting the instrumental approach to an organization is to make it easier for members of the business to treat each other as morality requires. In the respect I was careful about what I said in the first edition because, as Altman correctly quotes me, I speak of duties to the people in the organization. Basically I was simply following the Kantian John Rawls with respect to the kingdom of ends or to a social union. Here is another way of putting what I said in the first edition: I was asking how a corporate stakeholder should view a corporation. I took the viewing as a proposed action. I then asked if there is anything wrong (I should say, is there a moral risk) in looking at a corporation as simply a means to your own ends. I thought then and still think that the answer is "yes." In so doing I am not making the corporation a moral agent. I am the agent. Since the corporation is composed of persons, in viewing the corporation as a mere means, I am viewing the persons in it as a mere means. If I look at a corporation as a social union, I am less likely to commit that moral error. I think such a reading is perfectly consistent with Rawls and I do not see how my reading commits me "to a community that acts toward a moral end and that can be said to be responsible or not for achieving it."[47]

I now turn to Altman's more general arguments. Why does Altman think the categorical imperative cannot apply to business? Altman provides at least three reasons. First, it cannot apply because a lot of corporate decisions are diffused throughout the corporation in a way that individual responsibility cannot be parsed out. Altman cites the example of polluting the drinking water where corporate policies and all the workers, administrators, and investors contribute to the lengthy process. Second, most of the applications of Kant's ethics apply to corporate policies and "Corporate polices can encourage or discourage people to act in certain ways, but the morality of a given action cannot be determined by such policies"[48] Third, corporate internal decision (CID) structures cannot determine an individual's maxim because for an act to be moral it must be motivated by a sense of duty, and CID structures are not the kind of things that can have motivations. Altman argues that motivation is the central feature of Kantian ethics. An ethical action is an action done from the right motive, from the motive of duty or from the motive to do something because it is the right thing to do. You cannot determine motives when there are many actors for a given event (Altman's point 1) and you cannot determine the reason or motive behind corporate polices or CID structures because those things do not have motives. Altman seems to think that moral evaluation of anything requires that the object of evaluation be capable of having a motive, and neither diffused decisions nor corporate policies and CID structures have motives.

Altman's denies that corporate policies can be subject to Kantian evaluation. Policies can encourage or discourage behavior. They can be better or worse, "just as there can be better or worse laws. But the law itself is not moral or immoral."[49] But, of course, neither the Kantian nor hardly anyone else, for that matter, is saying that. However, a law that permits racial or sexual discrimination is one that violates both the first and second formulations of the categorical imperative, and that law can be immoral – not just better or worse, but immoral. A company policy that pays women less than men for the same job violates the respect-for-persons principle. Let's consider another example: the common policy of many companies of employment at will. I have already argued that this policy violates the treatment of the humanity in a person formulation of the categorical imperative. It is the policy that is wrong and it is wrong for the reason Kant would give. It certainly appears that laws, policies, and practices can be moral and immoral. We talk this way all the time. Now, Altman might well respond that we can talk this way but a Kantian cannot. Why does Altman hold this rather extreme view?

Altman believes that the only subject of moral evaluation for a Kantian is a human agent engaged in action according to a maxim. To see how extreme Altman's position is, a lengthy quotation is necessary.

> Even though a mission statement is like a maxim in that it is a kind of practical principle, people must still decide whether to carry out the actions it prescribes. Employees are not instruments that are causally determined by the corporation. They are autonomous beings who decide on the basis of their own subjective principles whether or not to follow the mission statement. This places responsibility on them. There is no analogous intermediary when it comes to the actions of individual persons. The corporation *influences* people's actions, but the moral agent causes her actions by virtue of the maxim she adopts.
>
> Actions taken by companies may be inconsistent or may undermine the conditions for their own possibility, as in the case of false earnings reports. But what we are judging in this case is a particular agent or a number of individual agents who performed these actions under the auspices of the corporation. For Kant what matters morally is why the agent performs the action. A business may act, but given its lack of inclinations and lack of reason, it is not the sort of thing that is motivated either by desire or by respect for the moral law …. It does not make sense to try to find out what motivated WorldCom to falsify its financial reports, but it does make sense to ask what motivated CFO Scott Sullivan.[50]

Altman seems to admit that company policies, mission statements, and strategies can be in violation of the requirements of the categorical imperative (in the quotation Altman admits that actions taken by companies may be inconsistent or may undermine the condition for their own possibility, and thus Kant would say that such policies, procedures, and so on would be in violation of the categorical imperative in its first formulation), but we cannot morally condemn them on Kantian grounds. We can only morally condemn the individual employees who act on them. It appears that Altman is saying that a corporation's policies, procedures, and the like can be in violation of the categorical imperative but cannot be morally evaluated. Altman is clear in the preceding quotation: it is the individuals who follow these policies, procedures, and so forth, and not the corporation, that should be held morally responsible.

Surely Kant would find something wrong here. For one thing, what about the morality of those who enacted and who enforce the company policies? It seems like there must be some moral responsibility for the actions of those who formulate, institute, and enforce policies that are in violation of the categorical imperative. But here Altman faces a dilemma. There almost never is a single person who formulates, institutes, and enforces. These functions are diffused through the corporation, as Altman points out with his example of polluting the water, quoted earlier. But when actions are diffused so that there is no clear line of causality, there is no moral responsibility. That means those who formulate, institute, and enforce are off the moral hook. Only the employee who must decide whether to carry out the policy has any responsibility. But that is surely wrong, and Kant would agree that it is wrong. When Altman's logic is carried through, there is very little moral responsibility in any organization, and thus Kantian and indeed all ethical theory has a very limited application in an organizational context. And that limited application seems wrong. Only the employee who is motivated to follow the immoral policy is morally blameworthy. Outside of that, no moral judgments can be made of the policies themselves or of those who created them. That seems immoral in and of itself.

One way out of this dilemma of limited moral responsibility is just to say that Kant emphasized the motivation of individual action according to maxims, but that the categorical imperative can be used to morally evaluate policies, procedures, mission statements, and even collective bodies such as the state. One might even look to Kant's discussion of punishment or other state action for insight here. It is important to note that in the *Metaphysics of Morals* Kant spoke as if states were moral agents. Either Kant was just being careless here or he believed that states really could be moral agents. And if Kant was not being careless, something more will need to be said concerning what his theory of collective agency really is. But I do not think Kant was being careless. So let us turn to the issue of collective agency.

To confront Altman's argument head on, let us shift from the individual level where the actions of individual observers are involved to the organization level where we look at actual corporate cultures.

Altman's argument certainly becomes relevant there. At the organizational level there is a difference in fact between an organization where the members simply use the organization as an instrument to their own ends and an organization where the members view the organization as a cooperative enterprise. An outside observer looking at these two organizations could see that they are different and could explain how they are different, and on the basis of those observations could make recommendations to the members of an organization where the organization is treated as an instrument as to what changes are needed to transform the organization into a cooperative enterprise, social union, or a kingdom of ends.

The existence of a corporate culture goes part-way toward addressing the stubborn metaphysical question of the ontological status of collectives. Is a corporation, a state, or a team more than the sum of the individuals that make it up? On that point Altman is a reductionist and would answer the question in the negative, or so it seems. The interesting question is whether in doing so, one needs to do more than simply refer to the individuals in the organization. Empirical researches would likely say that the two organizations have different cultures. They might even say that one organization has a culture of selfishness and the other organization has a culture of cooperativeness or teamwork. Basketball teams are often distinguished in just this way. Organizational cultures have sufficient metaphysical existence to be empirically studied, to have generalizations or "laws" discovered, and to be able to be changed by human intervention, albeit not easily. One can formulate hypotheses and make predictions as to how a corporation will act on the basis of its culture. Moreover, a corporate culture survives changes in the CEO or even the top management team. A corporate culture is very difficult to change.

If nothing else, a culture is a unitary thing describing the organization, whereas there can be individuals in an organization that do not share the attitudes of the majority of the individual members of the organization. We commonly understand that such minority individuals have not adopted the culture or "they are not a good fit," and we mean more in saying that than such individuals just do not share the attitudes of the majority of individuals. Indeed, I endorse a stronger claim that in theory no individual in the organization might subscribe to a principle that exists in the corporate culture. If that seems too strong, a weaker claim certainly does seem correct: the managers of a corporation may diverge from the corporate cultures at certain points of time, and at any point in time there are some, and perhaps many, individuals in the corporation who do not accept the corporate culture. In summary, a corporate culture has a real existence.

It is possible that Altman might agree with everything or most everything I have said in the preceding paragraphs. What is especially interesting here is that Altman endorses the notion of a corporate culture and even says that "Kant would encourage them [managers] to develop corporate cultures that, as far as possible, constrain people to do the right thing."[51]

However, Altman quickly adds that such encouragement does not imply that corporations are moral agents. I agree. They may not be agents, but the existence of such cultures and the characteristics that enable us to distinguish different kinds of cultures, to judge them on moral criteria such as "selfish" or "cooperative" and to study them empirically – even to making predictions about how they would evolve – gives them a metaphysical status of some kind. It seems that an organization's culture just seems to be more than the sum of the attitudes of individuals in the culture. These generalizations about organizations as well as suggestions for changing them are about the organizations themselves and apply to the organizations without necessarily applying to the individual members.

The first move to avoid Altman's critique is to either deny that Kant's ethics was solely intended to judge motivations or to simply say that all we need to do is extend Kant to cover things like policies, procedures, and corporate entities. This concedes Altman's point, but extending Kant's ethics so that it can apply more broadly is worth the cost and is a move made by many scholars of Kant's ethics. Barbara Herman in particular has extended the notion of maxim formulation in ways that Kant never intended and provided a rich Kantian type theory as a result. Herman considers the criticism that Kant has provided an inadequate account of how to choose the appropriate maxim for moral evaluation. For example, it has been argued that, if cleverly formulated, a maxim can be generated that would permit actions that are patently immoral. To get around this, Herman presents a theory of practical judgment where it is required that we have sufficient moral knowledge to construct the appropriate maxims. These rules Herman calls "rules of moral salience." These rules are acquired as a result of moral education and "structure an agent's perception of his situation so that what he perceives is a world that has moral features. They enable him to pick out those elements of his circumstances or of his proposed actions that require moral attention."[52] As to whether the rules of moral salience are sufficiently Kantian, Herman says, "We might think of this project as a normative reconstruction of Kantian ethics: the ultimate object is to present a plausible moral theory that is clearly and distinctively Kantian."[53] As Herman is doing in Kantian ethics in general, I am doing in Kantian business ethics, and I think such a response would be completely appropriate.

A second way to avoid Altman's critique is to provide an account of corporate action that allows a corporation to be a moral agent. The only thing standing in the way of corporate agency in Altman's account, as I read it, is that a corporation cannot have a certain mental state – a desire, inclination, or reason. Suppose this issue can be circumvented. Suppose a collective moral agent does not need to possess a conscious mental state in order to be a moral agent.

Yet a third possibility to avoid Altman's critique is to consider a Kantian theory of group or corporate agency based on the full corpus of Kant's work. Let us consider these two moves in more detail. I could borrow a theory of corporate agency that would allow the application of Kant's moral philosophy to the business firm itself. That theory will not be found in the Kantian corpus, but so long as the organization can be classified as a genuine agent, Altman's challenge is met. Altman cites both O'Neill and Korsgaard as proponents of the view that collectives can be agents or sufficiently like agents, although neither of these Kant scholars classifies their theory of collective agency as specifically Kantian.

Let us begin with some plausible accounts of corporate agency. For Altman's argument to work, the various accounts of corporate or group intentionality have to fail. At this point a discussion of some of these various accounts of group or corporate intentionality need discussion. In one of the earliest and most influential papers on this topic, Peter French argued that the question regarding corporate intentionality could be answered in the affirmative.[54] Several of the best-known business ethicists responded critically to French's account during the 1980s.[55] These critical accounts led French to revise his account in an article published in 1996.[56] In that article French gave up the traditional belief-desire model of individual agency and adopted the planning model of Michael Bratman where intentionality can be unique and can be distinct from belief and desire.[57] Although several additional articles criticizing French's original account appeared in the late 1990s and the early 2000s, most of those have ignored French's revision to his account. An exception is Denis Arnold, who has developed his own version of corporate moral agency by extending Bratman's shared intentionality account from individuals to groups and specifically to corporations.[58] We will be considering Arnold's view in some detail shortly.

It should be noted at the outset that Altman does not provide an extended critique of French in his paper. If French and Bratman are right in arguing that something can be an agent and have an intention without having a desire or belief, that would be sufficient to meet Altman's challenge. So let us move directly to Bratman and more particularly to Arnold's account and consider the plausibility of their accounts of agency.

Bratman takes seriously the notion of a "plan." Plans have a certain amount of indeterminacy. They need to be filled in and adjusted to ever-changing circumstances. A plan might be considered a commitment to future action. All of this seems pretty straightforward and by itself does not move the discussion much further ahead. However, plans can be shared, and since plans are intentional, intentions can be shared. Two people can plan to take a trip together. Even at the outset when two people plan a trip together, their initial ideas regarding details might not coincide. As the plans take shape, the individual plans need to mesh together so that they can achieve their goal of taking the trip together. Bratman puts it formally as follows: A shared intention to J is properly understood as the product of

1) the mutual intentions of P and Q to J;
2) the meshing subplans of the intentions of P and Q;
3) common knowledge on the part of P and Q regarding 1 and 2.[59]

One of the important points that Bratman makes about this characterization of shared intentions is that shared intentions are primarily about a web of attitudes rather than mere mental states.[60] Moreover, the existence of their individual intentions does not provide a complete explanation of their joint action. The individuals as they implement their joint plan are completing the plan, reacting to new contingencies, and readjusting their intentions to achieve their goal. What is true for two individuals can be true for many. That is, a large number of people can have a plan such as a plan to travel – that is what makes a tour group possible – and thus a large group can have shared intentions.

Denis Arnold then builds on Bratman's account to provide an account of corporate intentionality. Arnold creates the following example where Bratman's three conditions for shared intentionality are met:

> Consider, for example, the class of agents that comprise Millennium Chemical Company. Suppose that senior management decides to implement a new environmental management program. Suppose further that senior management creates and fills the position of Senior Vice President for Environmental Health and Safety and that this person in turn chairs the Environmental Management Systems Committee. This committee is comprised of senior executives from operations, human resources, engineering, purchasing and logistics, and corporate communications; it is charged with creating and instituting a new and more comprehensive environmental management policy. The mutual intention plan is satisfied once all parties agree to implement the new environmental management system. Typically these parties will make their decisions in accordance with the structure previously characterized by French as a corporate internal decision (CID) structure. This well known and essential feature of French's account of corporate moral agency includes hierarchical lines of organizational responsibility, rules of procedure, and corporate policies.... The meshing subplans condition is satisfied by the coordination of various subplans in the different departments and divisions of the company.... The knowledge condition is satisfied insofar as each person is aware of the subplans of other members of the group necessary for the execution of the plan.[61]

Thus, Arnold has provided an account of shared intentions within an organizational context. There is genuine agency, just as there is genuine agency in a tour group that plans a trip. The key to this account of agency is not an organizational or corporate mental state. Yet the shared intention to implement the plan cannot be reduced to the individual intentions of the members of the corporation. Some, or perhaps many, individuals in the group necessary to implement the plan may not have as their individual intention the successful implementation of the plan. However, given the hierarchical nature of the CID structure, they do what is required of them to successfully implement the plan. Thus, as Arnold says, "Corporate intentions are states of affairs consisting of both the intersecting attitudes of the class of agents comprising the corporation and the internal decision structure of the organization. The CID structure serves as the frame upon which the attitudes of board members, executives, managers and employees are interwoven to form corporate intentions."[62]

Of course, one more step is required. We must not only show that there are corporate agents but that there are corporate moral agents. To do this, as Arnold points out, corporations must be able to endorse corporate intentions as Arnold has characterized them. Such endorsement would require that corporations can evaluate past plans and decide whether those plans ought to remain in place, be modified, or be eliminated. I think it is fairly easy to show that corporations can and indeed effectively act in this way. Could we not simply insert "moral" into Arnold's definition of corporate intentions in the paragraph above? It seems obvious to me that we can. If a corporation can be a financial agent and a strategic agent by formulating and implementing financial plans and strategic plans, then it can be a moral agent by formulating and implementing moral plans – and all the more so when the moral plans are built right into the financial and strategic plans, as I would argue they should be.

Most corporations have a strategic plan. This plan guides the corporation, but it is constantly adjusted and evaluated in light of its success in meeting the financial goals of the corporation. One element of most strategic plans is the stance the corporation will take with respect to issues of organizational integrity and corporate social responsibility. In other words, moral elements are built right into the strategic plan. As R. Edward Freeman would say, "[T]here is no separation thesis between the business goals and the moral goals." What the account of shared intentions and corporate moral agency achieves is some way of explaining these notions of moral climate or ethical culture that either exist or do not exist within a corporation.

Now, once a corporation can be seen as a moral agent, it can be morally evaluated. This is because the plan can be morally evaluated on Kantian grounds. To deny this is to get into the bind I think Altman gets into. To ignore a moral evaluation of a corporate plan on the grounds that a plan cannot have a mental state or motivation to do the right thing, and to ignore the motivation of individuals who formulate and implement the plan because the motivation of the planners is diffused, is to give a very limited account of Kantian moral theory.

In addition to Arnold's theory, Kendy Hess is developing an even more robust theory of corporate agency.[63] I say it is more robust because she argues that a corporation counts as an agent on any of the standard theories that allow an individual to be an agent. Whereas Arnold builds his theory of corporate moral agency on one notion of intentionality, Hess does not need a special notion of agency such as the Bratman planning notion. For example, with respect to beliefs and desires, Hess argues that corporations have "commitments [that] qualify as beliefs and desires on the standard interpretationist, dispositionalist, and representationist accounts developed to explain human belief and desire."[64] Any and all of the standard accounts of what counts as an agent will do. Should Hess succeed in this endeavor, the mystery of corporate agency evaporates.

The ontological account of corporate agency Hess is working out can briefly be described as follows: Hess agrees that for something to be an agent, it must be able to believe, desire, intend, and act on the basis of those intentional states. Furthermore, to be a moral agent, it must have at least the capacity for free will.[65] Hess then argues that a corporate agent meets these two conditions. Hess begins with the point that corporations consistently act as if they have beliefs and desires (commitments about facts and values) and act as if they have a logically integrated set of beliefs and desires that drive their actions. She then goes on to argue that this is not mere appearance. Corporations do have commitments about fact and value, those commitments – those beliefs and desires – do drive their actions. While claims about these corporate beliefs, desires, and actions entail claims about the individuals in the corporation, these claims are not identical to claims about the individuals. As Hess says, "[T]hey are not claims about member beliefs or desires, moreover, actions ascribed to the corporation cannot be ascribed to individual members."[66] The basis for the claim that corporate beliefs and desires are real is based on the fact mentioned earlier, that if one looks at the accounts that set the criteria for individuals having beliefs and desires, corporate agents would also qualify.

Significantly, these corporate beliefs and desires are integrated into a complex that drives action – an integrated complex that Hess calls a "rational point of view" or RPV, similar to the RPV possessed by any human agent. Hess argues that the efficacy of the RPV explains corporate actions and thus our tendency to speak of corporations doing things. We speak this way because corporations really do things.

To establish moral agency, Hess argues that corporations have free will in the sense that they are the "ultimate originators" for what they do. The fact that a corporation needs individual corporate members to carry out their RPVs no more undermined corporate free will than the fact the individual members need the elements in their bodies to carry out their individual RPVs. A corporate agent can be an "ultimate originator" because its beliefs and desires are internal to it, just as an individual's beliefs and desires are internal to the individual. This is true in part because the members who contribute to the development of the corporate beliefs and desires are themselves internal to it. To appreciate what Hess is saying, we need to stop thinking that because a corporate agent is dependent on its members to act, the members rather than the corporate agent are the originators of the action. In speaking of the members of the corporate body, Hess says:

> The corporate entity is *constituted* (in part) by its members in much the same way that a human agent is constituted (in part) by the parts of her body. As a contributing source of action, they are just as internal to the corporate entity as the human agent's body, reflexes, sense, and brain are to her.[67]

What gives the corporate entity free will is the fact that the corporate agent's RPV can be modified and revised by processes that are internal to the corporate entity. The corporate entity adopts a strategic plan and modifies it as economic and other conditions change. The fact that the corporate entity gets input from external sources and acts through its members does not subtract from its free will. What is essential is that the corporate entity's deliberations, for example, are the deliberations of the corporate entity rather than simply the deliberations of the individual members of the corporation. And so they are. Indeed, Hess argues, in many ways, the corporate agent's commitments and the accompanying processes and systems guide and sometimes control the activities of the individual members. In summary, Hess says:

> Just so, as long as a corporate entity acts from its own beliefs and desires, its own commitments about fact and value, it acts freely. A corporate entity's beliefs and desires will be "its own" as long as it arrived at them through a largely internal process which was itself guided by the corporate entity's own commitments.[68]

As one considers this account of corporate agency or free will, one can ask if such an account of agency is consistent with Kant's account of agency. Significantly, the title of a recent online publication of Hess's is "Does the Machine Require a Ghost? Phenomenal Consciousness and

Kantian Moral Agency." The title alone indicates that Hess believes her account is consistent with Kantian ethical theory as well as with other major ethical theories. On her theory of corporate agency, "corporate entities can *believe* that humanity is an end in itself, *want* to behave morally, and even *respect* the moral law."[69] But Hess admits that there is something missing – namely, there is no feeling or experience behind the corporate agent's believing, wanting, or respecting. In other words, there is no phenomenal experience, which plays such a crucial role in our own practice of moral agency.[70] Perhaps that strong intuition that phenomenal experience is necessary leads us astray. What might make this awkward for a Kantian theory is the apparent inability to be motivated to act rightly, and of course that motivation is actually what is required for an action to have moral worth. However, as Hess points out, you can donate to a relief fund for people starving in Somalia without having any particular emotion; you do so because you believe it is the right thing to do.[71] I think Hess is on to something here, but I would put it somewhat differently. First, having an emotion, such as sympathy for those starving in Somalia, would actually undercut the moral worth of the donation. The problem is that most people interpret "motive" in a psychological way. However, for Kant, having the right motive is having the right reason; doing the right thing because it is right is doing the right thing because it is rational. By understanding "right motive" as "right reason," and if Hess is right in arguing that corporate agents can act on the basis of a rational point of view, I think we can claim that Hess has provided a Kantian account of corporate moral agency.

Hess is still developing her theory of Kantian corporate moral agency, and I suspect that she will be engaged with the skeptics of her account for some time. What is significant is that increasingly robust accounts of collective agency are still being developed and defended. Altman and those who share his view have not yet prevailed in the philosophical argument. Before leaving this topic, however, there is another less ontologically robust theory of Kantian corporate agency still being developed. Key to Amy MacArthur's work is an account of how a corporation can take up a maxim. Before turning to MacArthur's account, however, let us see what we can get from Kant's writings themselves as we consider this issue of Kantian moral agency. What does Kant have to say about the moral evaluation of organizations, and can a theory of corporate moral agency be derived from it? In the *Metaphysics of*

Morals Kant talks as if we could morally evaluate states, and he talks of the obligations that citizens have to the state. There is no reason to think that Kant is a reductionist here, who believes that terms like "state" are simply shorthand ways of referring to the individuals in the state. Recall that Kant had been heavily influenced by Jean Jacques Rousseau's political philosophy, and Rousseau was best known for his concept of the general will. Importantly, the general will was to be distinguished from the will of all. In other words, the general will was not simply the sum of individual wills. Rousseau described the formation of the city or political state as follows:

> Each of us puts his person and all his power in common under the supreme direction of the general will, and in a body we receive each member as an indivisible part of the whole.
>
> Instantly, in place of the private person of each contracting party, this act of association produces a moral and collective body, composed of as many members as there are voices in the assemble, which receives from this same self its unity, its common self, its life and its will. This public person, formed thus by the union of all the others, formerly took the name City, and now that of Republic…[72]

Although Kant does not emphasize the concept of the general will in his philosophy, Kant certainly was not a reductionist and believed that the state is a moral and collective body and thus capable of moral evaluation. We also know that Kant did not think that human beings were the only moral agents. As Amy MacArthur reminded me, Kant believed that God was a rational agent, as were angels, if such creatures exist.[73] Of course if one does not accept the existence of God or angels, this citation will not advance the argument very far. That is where Kant's political philosophy becomes especially relevant. Again, MacArthur has found numerous instances in Kant's political philosophy where states not only can act, but that groups of citizens within a state can act as well ("for example, to resist the sovereign or wage war against or with other nations.").[74] One need only look at Section 1 of *Perpetual Peace* to discover a list of duties that fall on states as states so that perpetual peace can be obtained. Furthermore, as MacArthur points out, in *Perpetual Peace* Kant claims that a state is a "moral person," and that one state cannot be treated simply as a means, but must be treated as an object of respect.[75] Kant is certainly not in the tradition of realist political philosophy such as espoused by Hobbes. The important point is that Kant himself does morally evaluate collectives, and thus Kant himself did not believe that his ethical theory could only apply to individuals acting independently. Kant also believed that citizens have duties to the state such as that of loyalty and obedience (indeed, obedience in the extreme).

With this emphasis on Kant's later ethical philosophy as well as his political philosophy, MacArthur proposes a genuine Kantian theory of moral agency. What this involves is the possibility that "groups are capable of engaging in practical reason and exercising moral agency, making them morally responsible for their actions."[76] MacArthur's strategy is to show how small groups can engage in practical reasoning and then to expand her analysis to large groups. Her argument is as follows:

1. Agents commonly coordinate their agency with one another in order to pursue their common ends.
2. In the case of a formally organized group, there is an end or ends for the sake of which the group exists in the first place.
3. The presence of these ends provide reasons for action.
4. When alternatives exist, the members of the group can deliberate on ends and how to achieve them according to a mutually accepted procedure.
5. Points 1–4 comprise a description of what it means to take up a maxim.
6. Thus, a group operating according to Points 1–4 can achieve a group maxim.
7. These group maxims are subject to the requirements of practical reason.
8. Thus, the maxims of groups are rationally and morally evaluable because they can meet or fail to meet the standards that govern any reasoning at all.

MacArthur then extends this analysis to large groups. In the state, the group acts through representatives. MacArthur claims that when a representative who has the authority to act on behalf of the group acts on the basis of a maxim, that maxim is a maxim of the group and not of the individual representative.[77] Now, there are normative principles that must bind representative group decision-making, such as the need for transparency regarding the deliberative process, and the resulting maxims and members must be free to enter and exit the group freely.[78] Since representative decision-making binds members to the ends of the group and to group maxims, respect for all members of the group seems to require the normative principles that MacArthur requires.

The final step in MacArthur's argument is to apply this analysis to the corporation. Her key points are that (a) "in a business or corporation, the general ends (for the sake of which the business exists) are often specified in the mission statement and in marketing and promotional material" and (b) "in large groups like a corporation, certain individuals or groups of individuals are generally given decision making authority."[79] I would submit that MacArthur is giving an account of how a corporate agent deliberates, formulates maxims, and acts – or does not act – on those maxims. Once one has an account of how a corporate agent can formulate a maxim, it is obvious that such maxims can be subject to moral evaluation. Rational decision-making is bound up with morality through the categorical imperative – or the form of the moral law.

Lastly, MacArthur defends the claim such as the one I made in the first edition of this work, that individuals of a group can have moral duties to that group or group agent. She argues:

> [T]here is every reason to think that Kant would in fact maintain that we do in fact have moral obligations to businesses. This is because a business is a collective entity formed by rational agents in pursuit of their permissible ends. As objects of choice of rational agents, these ends have value. Insofar as the ends are permissible, other rational agents have a duty (of beneficence) to respect them. It follows from the conception of group agency above that if indeed groups can exercise agency in the setting of their ends, these groups are worthy of respect in much the same way that individual human agents are.[80]

Although Arnold has provided one model for group agency, there is no claim that it is specifically Kantian. MacArthur has tried to provide such a specific Kantian theory of group agency based on Kant's writings, especially on Kant's political philosophy. In the meantime, Hess has developed an ontologically robust theory of corporate moral agency that, when examined, appears to be Kantian as well as consistent with other major ethical theories.

Kant did not explain in any detail how a collective could be an agent in the sense that the collective can provide a maxim for action. It may be the case that he more or less assumed it, although his knowledge of Rousseau's general will as well as his belief in the obligations the states have to reach peace and his remarks on the obligations that citizens have to the state make me doubt that he was that uncritical. But even if Kant did just assume collective moral agency, as long as a plausible account of group agency can be provided, the application of Kant's moral theory to the group should have no significant obstacles. The efforts like those of French, Bratman, and Arnold provide such plausible accounts, as does Hess, whose robust ontological account is consistent with Kantianism. Finally, Amy MacArthur is developing a very specific Kantian account. If MacArthur or Hess is correct, one has the mechanism for Kantian agency and thus the moral evaluation of groups his theory requires. If one is still skeptical of the Kantian solutions provided by the business ethicists mentioned earlier, one can always adopt an account like that of the later French or Arnold. And if one is skeptical of all accounts of group agency, one can still take Kant's transcendental or pragmatic (in the Kantian sense) stand and say that we must look at collectives in this way if we are to make sense of them. This latter approach has much in common with our commonsense way of looking at such collective bodies as corporations, churches, and states, among others. Thus, this chapter contains no fatal flaw. Kant thought we could evaluate groups such as the state. So does the law. Although controversial, there are many plausible accounts of corporate agency, and there are even plausible accounts of Kantian corporate agency. And if it is plausible to think of a group agent, then such an agent must be bound by rationality (otherwise it would not be an agent) and, from the Kantian perspective, by morality. And such an agent is worthy of respect, and is an agent to which individuals can have duties. Thus, a citizen can have obligations to the state and a corporate stakeholder can have obligations to the corporation.

Transition to Chapter 4

I trust I have argued successfully that Kantian moral philosophy can apply both at the individual and organizational levels of analysis. Success in this regard is important, because in the next chapter I discuss attempts to provide a Kantian theory of corporate social responsibility. And discussions of corporate social responsibility are in most part discussions that occur at the organizational level of analysis. However, any discussion of corporate social responsibility raises a challenge for Kantian analysis, a challenge that has also been raised by several of my conclusions in Chapters 2 and 3. Advocates for corporate social responsibility argue that corporate social responsibility is good for the bottom line – that it is good for profits. However, since Kant is clear in saying that a moral act is one that is motivated purely by duty, it ought to be done because it is the right thing to do. If corporate social responsibility is good for profits, how can it be a morally good corporate act? I try to answer that question at the beginning of Chapter 4.

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4 *Acting from Duty and Seeking Profit*

Every student of Kant knows that Kant insisted that we act from the proper motive; indeed, acting from the proper motive was *the* determinant of the morality of an agent's action. As Kant put it,

> Nothing in the world – indeed nothing even beyond the world – can possibly be conceived which could be called good without qualification except a good will. . . . Thus the first proposition of morality is that to have genuine moral worth, an action must be done from duty. An action done from duty does not have its moral worth in the purpose which is to be achieved through it but in the maxim whereby it is determined. Its moral value, therefore, does not depend upon the realization of an object of the action but merely on the principle of the volition by which the action is done irrespective of the objects of the faculty of desire.[1]

In the first edition of this work, as in this edition, I have constantly tried to show that guidance by the three formulations of the categorical imperative are both good ethics and good business. Put less formally, I have subscribed to the "good ethics is good business" line of thinking in business ethics. During my teaching years I provided a host of theoretical reasons and empirical evidence to try to convince skeptical students that if a business firm practices Kantian morality, it is possible for that firm to increase its profits. From the beginning I have had critics who have argued that I cannot hold the "good ethics is good business" position and be faithful to Kant. Kant requires purity of the will. By that Kant means that the maxim of an action must be motivated by the proper principle. Kantians often simplify this thought by saying that a genuine moral action can only be motivated by duty; it must be done for duty's sake or out of duty. I think that way of putting Kant's view easily leads to misunderstandings, but I will have more to say about that later.

Kant's Position on the Purity of Moral Motives

Let us consider a number of situations concerning the relation between profits and ethics so that some important distinctions can be made. First, suppose that a businessperson can make a profit by committing an immoral act – breaking a contract, for example. Everyone would agree that such an action would be immoral. Nothing I have said should lead one to think that a Kantian would ever morally permit a firm's making a profit if in so doing the firm violated the categorical imperative. A Kantian could permit a firm, even on many occasions, to put profit ahead of an imperfect duty to aid others. (See Chapter 2 and later sections of this chapter for that argument.)

Having made that point, let us turn to one of Kant's few explicit business ethics examples. He says:

> [I]t is in accord with duty that a dealer should not overcharge an inexperienced customer, and wherever there is much trade the prudent merchant does not do so, but has a fixed price for everyone so that a child may buy from him as cheaply as any other. Thus the customer is honestly served, but this is far from sufficient to warrant the belief that the merchant has behaved this way from duty and the principles of honesty. His own advantage required this behavior, but it cannot be assumed that over and above that, he had a direct inclination to his customers and that, out of love, as it were, he gave none an advantage over another. The action was done neither from duty nor from direct inclination but only for a selfish purpose.[2]

This passage is one of Kant's most extreme, since he seems to be saying that because there is an advantage to being honest, the merchant's honesty cannot be a moral act. Indeed, Kant seems to go overboard when he seems to say that the shopkeeper cannot even be acting from the inclination of love.

It may be that Kant singled out the merchant – and, by implication, business relations – as being such that the moral motive cannot possibly be sufficient in these cases. If that was what Kant was saying, then I think he was overstating his case. Nearly all of us, at least on occasion, have the experience of being motivated to do something because it is the right thing to do, even when that action will clearly be to our benefit as well. And most of us have had this experience early in life. The conscientious child who tells her father the truth because she is obligated to do so is acting from a moral motive, even though he would likely discover the truth and she would be punished if she did not do so, and thus she knew telling the truth is clearly in her interest. Indeed, this recognition that we should do something because it is right rather than because we may get punished if we do not is a sign that we are developing a moral sense.[3] What makes honesty in business relationships any more problematic than conscientiousness in telling your parents the truth, even when you know that if they discover the truth you will be punished if you do not?

Of course, Kant could be interpreted so that even the child who told the truth because it was the right thing to do while at the same time knowing that telling the truth was in her interest could not be said to have engaged in a truly moral action when she told the truth. However, I do not think such an extreme view is Kant's view, and neither do most contemporary Kant scholars, as we shall see. Indeed, in one passage from *Lectures on Ethics* specifically applied to business, he seems to recognize this fact by introducing a notion of mediated goodness. "Thus honesty may possess a mediated goodness on grounds of prudence, as in commerce, where it is good as ready money."[4] Of course, *Lectures on Ethics* is based on a set of student notes from Kant's lectures before he had developed his full-blown ethical theory. However, Kant maintains this mediated view in his later ethical writings. The fact that an action is in fact prudent does not take away from the moral worth of the action if the motivation (reason) for the action is that duty requires it or that it is right the thing to do. What is key is the motivation or reason for the action, not the fact that the action is in one's interest.

Thus, the fact that you have a prudential reason for doing something does not mean that it cannot be done out of duty – as Kant himself admits in *The Metaphysics of Morals*. Criminal law makes the commission of certain actions punishable by the state. That does not mean that a person who refrains from committing such actions cannot be doing so out of duty. This is how I interpret the following passage:

> It is not a duty of virtue to keep one's promise, but a duty of justice, one that we can be coerced to perform. Nevertheless, it is a virtuous action (evidence of virtue) to do so where no coercion can be applied. Theory of justice and ethics (Rechtslehre and Tudenlehre) are distinguished, therefore, not so much by their differing duties as by the difference in the legislation that binds the

one or the other motive to law.... To be sure, Ethics also has duties peculiar to itself (for example, duties to oneself); but it also has duties in common with justice, though the manner of being bound to such duties differs.[5]

The key here is what motivates or provides the reason for the action. The fact that an action is required by the state does not exclude it from being done from a genuinely moral reason – because it is the right thing to do.

We can generalize from this discussion. For Kant, an action has true moral worth only if it is done out of duty. Actions done out of prudence or even actions done out of the goodness of one's heart are not genuine moral actions. However, the fact that an action is prudent does not necessarily mean that the action could not be done for the sake of duty – that is, done because it is the right thing to do.

Let us now move to a case where an action is not only prudent, but the actor is in fact motivated by dual motives. What if an action is the result of two motives, performed not only because of a fear of punishment but also because it was the right thing to do (out of duty)? Some actions are performed from multiple motives. An action is overdetermined when there is more than one motive influencing the doing of it. Thus, if a businessperson does not cheat a child because she believes it is wrong and because she wants a reputation as an honest businessperson, then the action is overdetermined. What does Kant say about actions that are overdetermined? Would such an action be one that has genuine moral worth? There are several possibilities here.

If Kant is interpreted as a purist here, the only motive that would make the action truly moral is the motive provided by the goodwill – that is, doing it because it is right. The fact that the action would also contribute to profit or allow one to avoid punishment cannot enter into one's motivation at all. Thus, the mere presence of a second motive disqualifies the action as a genuine moral action. If that is the case, it looks as if businesspeople do few actions out of duty even if many of their actions conform to duty.

Should a Kantian in business ethics simply accept that conclusion? Not if Kant is less of a purist than some have thought. Some commentators interpret Kant in a way that makes him seem less of a purist after all. Consider three possibilities for making the shopkeeper's action overdetermined.

1. The shopkeeper would not cheat the child even if he could get away with it. Thus, the moral motive would have been a sufficient motive in this case. However, the shopkeeper is also motivated by the desire to protect his reputation.
2. The shopkeeper would not cheat the child only if she thought cheating her would harm his reputation. In this case the prudent motive is necessary for the commission of the action that is in conformity with duty.
3. Neither the moral motive nor the prudential motive is sufficient for not cheating the child. Each is necessary and they are jointly sufficient.

What would Kant say about these cases? Clearly, an action performed on the basis of the motive described in (2) would not be a genuine moral action. I know of no commentator on Kant who claims it would. I also think it is fairly clear that Kant would reject the action as motivated in (3) as a genuine moral action, since the prudential motive is necessary for the action. Again, I am not aware of any commentator on Kant who would argue differently.

That leaves (1). What if a person has multiple motivations or, as I prefer to say, multiple reasons? If the duty not to lie is honored both because there is a penalty for lying and because telling the truth is the right thing to do, is the action genuinely moral? This question seems germane in business ethics, because business executives often give as a reason for their actions the fact that the action is the right thing to do and their actions contribute to profit. For an action to be genuinely moral, must the fact that there is a penalty for lying be absent from one's consciousness? Richard Henson has argued that Kant could accept (1) as a genuine moral action under certain conditions.[6] For Henson, all that is required is that the motive of duty would be sufficient for the action if the other influences were not present.

But Henson's way of handling (1)-like cases is not sufficiently Kantian for Barbara Herman.[7] Herman points out that there is an ambiguity in the use of "sufficient." It could mean sufficient if other influences were not present, or it could mean sufficient even when the other influences are present. Herman insists that Kant would take "sufficient" in the latter interpretation. It appears that if Herman is right, (1) could not be a genuinely moral action because there are multiple motives for the action, even though the motive of duty is sufficient. However, Herman draws a distinction between incentives for action and the reason for an action. (1) could be a moral action for Kant if the shopkeeper's concern for his reputation was an incentive not to cheat the child, but that the moral obligation not to cheat was the reason for not cheating the child. Thus, if an incentive coexists with the reason for the action, the action can still be a genuine moral act.

> When an action has moral worth, nonmoral *incentives* may be present, but they may not be the agent's motives in acting. If the agent acts from a motive of duty, he acts because he takes the fact that the action is morally required to be the ground of choice.[8]

Since the word "motive" is associated with a psychological state, I would prefer to substitute "reason" for "motive" whenever I can. Today "motive" often is an approximate synonym for "incentive." Given the logical nature of the categorical imperative, what Kant requires for moral action is the appropriate reason. The important point on this account is that if the shopkeeper is honest and does not cheat the child because it was morally required, even if there was a prudential incentive in terms of a good reputation for being honest, the action would be a genuine moral action on Kantian grounds. Actions that result in a profit for business can nonetheless be moral if duty was the reason guiding them.

Finally, as Jeffery Smith has reminded me in private correspondence, Kant was fully aware of the fact that human beings were phenomenal beings, that they are propelled by empirical causes including impulses, incentives, and inclinations. Thus, there is always an incentive that will accompany a rational motive, even when the rational motive is sufficient as Herman understands the term "sufficient." If we are to understand human action in phenomenal terms, an incentive alongside a sufficient rational motive is nothing special or atypical, but rather is necessary. In this way Kant's purity of the will needs to be understood as a discussion of what gives action moral worth, and not as a description of what actually moves moral agents to act in accord with what they may simultaneously recognize as the ground of their action.

Although I think Herman's interpretation is reasonable, it may not help us much in business ethics. The chief problem in business ethics is that businesspeople describe their putatively good actions in a way that would not meet the Kantian requirements, even when Kant is interpreted the way Herman interprets him. Specifically, they argue that profit really is one of the reasons for their action. Profit is not just an incentive; it really functions as a reason.

Before considering this challenge in more detail, it should be pointed out that sometimes a business will make its duty the reason for its action. In the late twentieth century, one of the classic cases of a morally responsible business was the Merck Corporation. The essentials of the case are as follows: Merck had discovered the cure for river blindness, a disease caused by a parasitic worm carried by black flies that live along rivers in remote portions of Africa and South America. The Merck miracle drug Mectazin was specific to this disease and had no other uses, but those who had river blindness could not afford it. Merck went ahead anyway and developed the drug at the cost of millions of dollars. It had hoped that foundations or the U.S. government would pay for the drug. So far Merck's motives seem not sufficiently Kantian. But when no one would step forward, Merck agreed to supply the drug for free. Then Merck realized there was no easy way to distribute the drug, since those who needed it lived far away from highways or airports, in remote jungle locations. Merck then agreed to produce the drug and distribute it for free forever. In making that commitment Merck seemed to meet the Kantian requirements for a genuinely moral action. Merck ultimately made the commitment because it was right.

Should Business Change the Way It Talks about Its Good Deeds?

Although the vast majority of businesspeople give a justification based on profit for their acts of corporate social responsibility, perhaps they should change their rationale. It is certainly understandable why businesspeople would appeal to profits. Wall Street and, in many ways, the law require it. However, it is interesting to point out that the general public judges business in a way that is very Kantian as Kant is often interpreted. If people think that a business is doing good deeds for the money, many will react cynically and discount the good deeds. The good deeds are not considered to have genuine moral worth. A few people may even think less of a company that does good deeds for the money than it does of a company that simply does business (just produces a product or service the public demands.)

Given the amount of public cynicism, it is tempting to urge businesspeople to take a proposal for the reform of the rationale given for actions in conformity with duty seriously. With respect to actions required by the categorical imperative, the fact that the categorical imperative requires or forbids them should be sufficient for the doing or not doing of them. The merchant should not cheat the child, and it seems that Wall Street and corporate stockholders should have no difficulty in accepting the rationale that cheating the child is wrong independent of profits.

With respect to good deeds that are sometimes required by imperfect duties, if corporations would accept the fact that they are required to perform acts of corporate beneficence, why not make the fact that corporations do have these obligations the reason for these actions? That kind of commitment might even be a strategic advantage.

Thus, in business, the fact that something is right in the sense stipulated should be sufficient and count as the reason for doing it. So long as that condition is met, following Herman and others, the inclination to seek a profit may also be present. But isn't such advice purely utopian? Could a business in a competitive system survive that way?

Interestingly, there is theoretical support to show that being motivated in such a way is not utopian, although it is somewhat paradoxical. Some business firms in some situations may be able to increase profits or increase their market share only if they act from the motive of duty. In his book *Passions Within Reason*, Robert Frank provides a series of arguments for the strategic advantages that come with pure altruism. Frank distinguishes between reciprocal and hardcore altruism. You have a case of reciprocal altruism when you do something for someone in the expectation that they will do something good for you. For Frank, reciprocal altruism is not true altruism. Kant would agree. Hardcore altruism, on the other hand, occurs when someone sacrifices an interest of his in the interest of someone else and there is no reciprocal gain for himself as a result. Hardcore altruists are committed; their acts of altruism are done because they are right.

However, even though some actions are done because they are right, they still may have a strategic payoff in terms of self-interest. Of special interest to businesspeople is Frank's analysis of trust. Managers have found that trust contributes to profitability by allowing an individual or a firm to engage in transactions not open – or not open to the same extent – to people who are not trustworthy. Partnership in a joint venture and the ability to get venture capital are standard business examples. However, partners or venture capitalists will only trust their potential partners if they believe their partners are genuinely trustworthy and not simply adopting a trusting posture as a matter of strategy. Frank puts it this way:

> The honest individual in the commitment model is someone who values trustworthiness for its own sake. That he might receive a material payoff for such behavior is completely beyond his concern. And it is precisely because he has this attitude that he can be trusted in situations where his behavior cannot be monitored.... But even if the world were to end at midnight, thus eliminating all possibility of penalty for detection, the genuinely trustworthy person would not be motivated to cheat.[9]

It is important that I should not be misunderstood here. I am not arguing that businesspeople act from the motive of duty because there can be a payoff for doing so. Businesspeople should do the right thing because it is right. On this point Frank is in complete agreement with Kant. Frank says:

> For the model to work, satisfaction from doing the right thing must not be premised on the fact that material gain may later follow; rather it must be *intrinsic* to the act itself. Otherwise a person will lack the necessary motivation to make self-sacrificing choices, and once others sense that, material gains will not in fact follow. Under the commitment model, moral sentiments do not lead to material advantage unless they are heartfelt.[10]

I think it is fairly easy to apply Frank's point specifically to business. Frank is saying that if you act from duty, you will be rewarded, but you must not focus on the reward because if you do, you won't receive the reward.

My first example is based on the foolishness of much advice given to MBA students in business school. MBAs are often told that every business decision should be justified on the grounds of the self-interest of the firm. They are also told that every decision should be motivated by the desire to make a profit. Yet business professors in a number of disciplines teach and recommend that MBAs adopt business practices that we have shown are consistent with Kantian morality, and that most people would consider morally good actions – such as the use of teams, or that workers be empowered, or that the workplace be organized more democratically – because these morally good practices will raise the profits of the stockholders. Wouldn't it be more sensible to adopt these management practices because they are right? Indeed, managers instinctively know this because they seldom tell the workers they are instituting these practices because they will lead to profits. If the managers truthfully announced that they were doing those good things in order to raise profits, how would an employee or customer respond? Wouldn't the managers be mocked rather than praised? So in dealing with employees, managers use the language of ethics, and in dealing with Wall Street, managers use the language of profits. Of course, workers know that managers use the language of profits on Wall Street, and thus they do not believe managers when they say they are instituting enlightened business practices because doing so is the right thing to do.

These considerations led me to formulate an argument I have called the "Paradox of Profit."[11] It goes as follows: philosophers are familiar with hedonic paradox – The more you consciously seek happiness, the less likely you are to find it. If you do not believe this, just get up some morning and resolve that everything you do will be done in order to achieve happiness. You will soon be miserable. Happiness is something you achieve but not something you strive for. Happiness is the result of successful achievement, but it is not itself something you try to achieve. For Aristotle, self-realization is what you try to achieve, and happiness is the result of achieving it. It seems to me that at least to some extent, profits are like that. The more you focus on them, the less likely you are to achieve them. Conventional wisdom argues that business managers should focus solely on the bottom line. A Kantian thinks that advice is mistaken. Instead, the business manager should focus less on profit and focus more on doing the right thing, which in the context of this book means treating the humanity of all corporate stakeholders as an end and managing in accord with the principles of a moral firm. If managers manage in that way and do it from the motive of duty, profits are likely to result. (Of course, that will not always be the case; the manager needs to use his accounting, finance, and other business skills and needs to have good luck besides.)

I have discovered that the thinking behind the Paradox of Profit is not entirely new. Frederick F. Reichheld in his book *The Loyalty Effect* provides empirical support for the following view of profit:

> Maybe our profit-centered world is as skewed and counterproductive as the concept of an earth-centered universe. That is not to say that profit doesn't matter. Putting the earth in its proper relation to the sun doesn't make the

earth less important, or the sun more so. What it did do was make sense of the mechanics. Profit does not have to occupy the center of the business solar system in order to be indispensable.[12]

Interestingly, Reichheld has been inspired by none other than Henry Ford. It should be noted that Henry Ford was successfully sued by a shareholder for lowering the price of Ford cars and raising the wages of employees. Ford believed that higher wages and lower-priced automobiles would result in long-run benefit to the company and to American society in general. Note what Ford said about profit: "Business must be run at a profit else it will die. But when anyone tries to run a business solely for profit then also the business must die, for it no longer has a reason for existence."

It is important to distinguish the position being discussed here from a closely related position. One could argue that profit is the very essence of business, and that the moral manager should always be focused on the bottom line. It is this position that is vulnerable to the Paradox of Profit. A weaker position maintains that profit is the main purpose of business, but that in order to make a profit one must focus one's attention on the interests of all the corporate stakeholders (a position known as instrumental stakeholder theory.) A third position under discussion here as a contrast to the always-focus-on-profit approach denies that profit is the main purpose of business. I call this position instrumental profit theory. Although business leaders who subscribe to this instrumental profit philosophy are in a distinct minority, there are some – usually the founders of a business – who do believe and act on this philosophy. A couple of quotations are meant to be representative.

George Merck II, son of the founder of Merck & Company, put it this way:

> I want to … express the principles which we in our company have endeavored to live up to.… Here is how it sums up. We try to remember that medicine is for the patient. We try never to forget that medicine is for the people. It is not for *profits*. The profits follow; and if we have remembered that, they have never failed to appear. The better we have remembered it the larger they have been.[13]

During the first few years of the twenty-first century I had the opportunity to travel extensively in Europe and Asia and heard firsthand that many business executives abroad thought American CEOs were too profit oriented. The Japanese businessman Dr. Yoshi Tsurumi is a representative of this view:

> Most American executives think they are in business to make money rather than products and services.... The Japanese credo, on the other hand, is that a company should become the world's most efficient provider of whatever product and service it offers. Once it becomes the world leader and continues to offer good products, profits follow.[14]

Interestingly, there are a number of business ethicists who, I believe, subscribe to the instrumental profit theory. I would include the stakeholder theory of R. Edward Freeman and his students in that camp. For them the purpose of business is to add value to all the corporate stakeholders, and profit is a means to that end. By the way, I find much merit in Freeman's account and, with respect to the purpose of business, could count myself as an adherent. (I differ from Freeman in that I try to provide a moral foundation for stakeholder theory.) Moreover, as Jeffery Smith has reminded me, there are other business ethicists – and ones you would not expect – who may also fall into that camp. John Boatright's financial theory of the firm largely views profit seeking as an instrumental finance mechanism where equity investors are necessarily the most common claimants on profits. It is how an enterprise can gain access to capital. If it could obtain capital through other means, it might do so, except for the fact that there are costs or other disadvantages with these alternatives. For Boatright, if you assume that the purpose of a business enterprise is to serve the economic interests of all the parties who contract with the firm, profit is just a mechanism for achieving that purpose. Recently Joseph Heath has published an important business ethics book that basically argues that profit is a social good only insofar as it enhances the efficiency of the marketplace.[15]

What can be concluded from this discussion? One need not make profit seeking the purpose of business. If so, there may not be a serious problem for Kantian business ethics, since if profit seeking is instrumental and the purpose of business is something like respecting the humanity in all the corporate stakeholders, the reason for managerial action could be doing something because it is right (respecting the humanity in all the stakeholders.) However, even if one accepts the traditional view that the purpose of a business is to make a profit,

profit seeking may still not violate Kant's injunction that an action only has true moral worth if it is done out of duty or because it is right. Even if the incentive to make a profit is present, so long as the motive (reason) for an action is duty, the action would be a genuinely moral action. However, since most businesspeople seem to treat profit as a reason for action, it seems as if most good business actions would be in conformity with duty but not done out of duty. A few businesspeople may act out of duty, as the previous quotations indicate, but most do not. In what follows I write from the position of the traditional view, that the purpose of business is profit seeking, even though I do not hold that view myself.

The Moral Obligation to Seek Profits

Our entire discussion to this point has treated the seeking of profit as a prudential motive rather than a moral motive. In terms of the merchant example, a businessperson seeking profit is analogous to the merchant seeking to protect his reputation. Moreover, looking at profit in this way mirrors closely the way the general public looks at it. There is nothing moral about a business that acts in ways that increase profits. However, this way of looking at profit making is incorrect.

For managers of publicly held corporations, making a profit is a moral obligation rather than a prudential one. There are many arguments in support of this claim. One that would appeal to a Kantian is that the managers of a publicly held corporation have entered into a contract with the stockholders to do so. I first made this argument in the first edition, but I had not realized the full implications of the argument at that time. Over the past fifteen years I have developed the argument and explored its implications. The result of my further reflections has led to a strange result. A Kantian theory of the firm is more capable of being consistent with the view of Milton Friedman than I ever would have expected. One need not subscribe to the classical view, but what is interesting is that a Kantian theory of capitalism can even apply in that case.

Not only is the seeking of profit a moral obligation; it is a perfect duty. Put in a formal way, the argument runs as follows:[16]

1. In a publicly held firm the managers (CEOs and the top management team) have entered into a contract with the stockholders.[17]

2. A contract is a type of promise.
3. The terms of the contract are that the managers should attempt to seek profits for the stockholders.
4. For Kant, keeping a promise is a perfect duty.
5. Therefore, managers have a moral obligation – indeed a perfect duty – to seek profit.

Note that there is a kind of profit seeking that is prudential and that kind of profit seeking is not even in conformity with duty; it is purely prudential. What makes concern with profit prudential is *not* aiming at profit per se, but aiming at profit in order to increase your salary or to keep your job. In these latter cases, seeking profits is a means for furthering the manager's own ends. Profit seeking in these cases is not done from a moral motive (the right reason.)

Moreover, this prudential profit seeking is what is taught in the business schools and what motivates most MBAs. Finance professors discuss ways to align the interests of the managers with the interests of the stockholders. The assumption is that managers are motivated totally by self-interest, and thus devices such as stock options are needed to make managers do the right thing – to act in conformity with duty. As one of my former Wharton students put it bluntly and angrily, "Just face it; we are here to make money."

I acknowledge that profit and moral obligation do not make an easy fit in the minds of many. However, this unease is based on the well-known cases in which profit was used as an excuse for unethical actions. I reiterate that, although seeking profit is a moral obligation in a publicly held corporation, profit seeking must be done in conformity with morality itself. It is not ethical to pursue a moral goal by unethical means. Second, the attempt by business and academic business theory to overcome human self-interest through prudential means has transformed the pursuit of profit from a fiduciary obligation of managers to stockholders to a self-interested means to increase the financial wealth of managers. These managers act in conformity with their fiduciary obligation because they have a prudential interest in doing so. All of this contributes to the negative connotations that profit has in the minds of some of the public. And the ever-increasing attempts to use high salaries, bonuses, and stock options as incentives to get managers to do what they ought to do anyway has added to income inequality and contributed to lower profits, because if managers simply did what duty requires, the incentive devices like stock options would not be needed. Getting managers to pursue profit because it is the right thing to do – and thus act as Kantian morality requires – at least would be less expensive than paying managers to act in conformity with duty.

A Complicating Implication of This Analysis

A feature of my analysis is that the obligation of managers to seek a profit is, in Kantian terms, a perfect duty. Perfect duties are duties that hold at all times and thus take precedence should there be a conflict between perfect duties and imperfect duties. I have consistently argued that the managers of corporations have an imperfect duty to the local community or to help solve social problems. However, it appears that if profit seeking is a perfect duty, a moral manager should never sacrifice profit in order to aid the community. And if this is so, the obligation to aid society would be constrained; the obligation would only hold in those cases where aiding society would be consistent with seeking a profit. This conclusion may not seem right, although when such a conclusion is properly understood, I think that it is right – at least for those who accept the traditional view that profit-making is the essence of business. In what follows I argue that this conclusion, which follows from my analysis, is exactly the appropriate one from a Kantian point of view.[18]

It appears that Kant would not permit one to violate a perfect duty in order to fulfill an imperfect duty, but if that is the case, it looks like we end up in a position very much like the traditional one espoused by Milton Friedman and his followers. The manager of a publicly held corporation should be beneficent only when there is no negative effect on profit. In the analysis that follows I try to show that this conclusion does not lead to some of the counterintuitive results one might expect. Also I remind the reader that this analysis is taking place within the traditional assumption that the purpose of a for profit corporation is to seek a profit.

Kantian Capitalism: Moral Profit Seeking

This account has rather lofty goals. I seek to provide an account that fits well with standard theories of capitalism and Kant's moral philosophy. If I am successful here, I can show that on the one hand, the application of Kantian ethics to problems in business ethics is not too idealistic – on the contrary, it fits well with capitalism as it is traditionally understood – but on the other hand, the account possesses real moral bite and requires changes in how the managers of many corporations actually manage. The following should also be noted. Although I have been speaking of a conflict between the perfect duty for managers in a publicly held corporation to seek a profit and the obligation of managers of such corporations to provide support for local communities, Kant himself insisted that there is no conflict between perfect and imperfect duties.[19] One of the strengths of my analysis is that it is consistent with Kant's views on the absence of conflict, as we will see.

As a general duty, corporate executives have an imperfect duty to promote the interests of all the corporate stakeholder groups – those stakeholders necessary to the survival of the firm. In the remainder of this chapter I mainly focus on duties of beneficence to the local community or to the solving of social problems. In making this claim I am one with Kant who claims that individuals are always bound by the duty of beneficence, although they need not act on that duty on every occasion. I also accept Kant's arguments for the existence of such a duty. However, in all this I am keeping in mind the importance of the perfect duty for managers to seek profit and of the fact that a perfect duty should not be violated to conform to an imperfect duty.

A common way for a corporation to fulfill its imperfect duty of beneficence is to engage in corporate philanthropy. There are always many worthy charitable organizations that seek a corporation's support. Which organizations should a corporation support? My analysis would require that corporations support those organizations that are most closely related to the core activity of the firm. In this way the corporation can fulfill both its perfect obligation to seek a profit and its imperfect obligation of beneficence. Corporate philanthropy should be business related or strategic. Thus, the executives of pharmaceutical companies should focus on working with nonprofits who would bring cheap drugs to underdeveloped countries. They should do this rather than send their money to Habitat for Humanity, since providing drugs rather than building houses is what their business is about. In this way acting on the imperfect duty of beneficence is consistent with the perfect duty to seek profit. What I am arguing here is that morally a manager should not seek to act on the imperfect duty of beneficence when there is good reason to think that so acting would undercut the perfect duty to seek profit. Spending money on things unrelated to the business would burn into profit and would, in most cases, violate the perfect duty to seek profit.

It should be noted that in the business context, tying beneficence to business strategy is a way to avoid a common criticism of Kant, namely that his notion of imperfect duty is too burdensome. In the Kantian capitalism that I propose, we have a powerful algorithm for determining when we are clearly not obligated to act on the imperfect duty of corporate beneficence. Do not sacrifice long-term profit for beneficence. Such an algorithm may seem to limit corporate beneficence, and so it does. (Note, however, that I am not saying the duty of beneficence is absent in such cases; the imperfect duty is still there but it should not be acted on in these cases.) But it also provides for significant corporate beneficence while protecting the primary purpose of business and the primary obligation of managers to seek profit.

To show the power of this algorithm, let us consider an example of corporate beneficence toward another stakeholder – the employee. Kant is clear that there is an imperfect duty to develop one's talents. One of the most common ways to develop one's talents is through work. One could argue that an aspect of the imperfect duty of beneficence is that corporate executives assist their employees in the development of meaningful work where meaningful work is work that enables the worker to develop his or her talents. Moreover, we have already shown in Chapter 2 how providing meaningful work is consistent with and one way of honoring the respect for the humanity in a person formulation of the categorical imperative. In that chapter we also showed how providing meaningful work for employees is consistent with profit seeking. Thus we have another clear case where there is no conflict between the perfect duty to seek profit and the imperfect duty of beneficence.

Some readers may still feel uncomfortable with these results. Shouldn't there be occasions where a corporation ought to act beneficently even if profits are hurt? Not in cases where it is likely that long-term profits would be hurt. In such cases there are other ways to honor the duty of beneficence.

It should be noted that strategic philanthropy, like all business decisions, contains elements of risk. Some businesses will take more risk with respect to strategic philanthropy than others. Indeed, in some companies philanthropy is a core part of their corporate culture. So long as corporations are transparent with respect to their strategic philanthropy, investors can make their own decisions as to how much risk they want to take. An example will make my point clearer. The Target Corporation has a known policy of contributing 5 percent of its pretax profits to charity. Target also has explicitly stated that it believes these contributions to local communities and the arts contribute to its profitability. Stockholders who invest in Target are aware or ought to be aware of Target's policy. Stockholders give Target's strategic philanthropy policy implicit sanction.

In this discussion it is important to distinguish short-run from long-run profit. I have assumed that the obligation to seek profit is an obligation to seek long-run profit. This assumption is consistent with corporate law with respect to the fiduciary obligations of managers to stockholders. Providing value to another stakeholder group that lessens profits to stockholders in the short run will not violate the manager's perfect duty to seek profit as long as there is a reasonable belief (known legally as the business judgment rule[20]) that providing value to another stakeholder group will contribute to profit in the long run. This move makes real sense if those legal scholars who argue that the contractual duty of managers is to serve the good of the corporation per se rather than to maximize shareholder profit.

But what about cases where beneficent behavior would involve the sacrifice of long-term profit? I return to my main point. The imperfect duty of beneficence exists but should not be acted on in these cases. An imperfect duty does not need to be acted on in every case and given the perfect duty to seek profit; a case where beneficence undercuts long-term profit is one example.

Some may still feel uncomfortable with this result. As I admitted earlier, corporations differ in their beliefs concerning the extent to which beneficence contributes to the bottom line. Some beneficence is required of all companies, but I see no difficulty in having a variety of models regarding the relation of beneficence to profit. However, I am troubled by a comment that Mark Schwartz made during a presentation I gave on this topic. He pointed out that a business might well not undertake a recall of a defective product when such a recall is not legally required on the grounds that such a recall would hurt long-term profits and the business is honoring its obligation of beneficence in other ways. If the action is really unethical on Kantian grounds, that is not permitted as I indicated earlier. A product defect that presents dangers to the public would be an action of that type. Lying about a product defect also would not be permitted. But suppose we were talking about a minor bug in a computer program. What if fixing that led to a decrease in long-term profit? My answer to Schwartz was that in those cases it was imprudent for a business not to fix the problem because, as an empirical matter of fact, not doing so would undermine or lessen long-term profit. However, I must admit that a few such cases might exist and that those cases would not run afoul of Kantian morality as interpreted here. Should one have a different account of business, this problem would go away, since profitability is not the primary purpose of business.

I am now convinced that I have a basically plausible and extensive account of how "Good ethics is good business" is consistent with Kant's insistence that a genuinely moral action must be done for the right reason; it must be done because it is right. My account has two distinct advantages. First, it provides a rich account of profit seeking where profit seeking is not unethical and is a positive good, and the obligation of management is to seek profit because it is a perfect duty that it do so. Kantian profit seeking is not only not immoral or amoral; it is a positive good. Morally constrained profit seeking provides the resources – the goods and services – that enhance the lives of all of us.

Second, my account provides a way for the imperfect duty of beneficence to be consistent with the perfect duty to seek profit. In this way the imperfect duties are suitably constrained and are not overly burdensome. A manager need not act on the duty of beneficence whenever doing so would undermine long-term profit. What the duty of beneficence does require is that the manager seek those occasions where the duty of beneficence is reasonably believed to enhance profit. And given that seeking profit is a perfect duty, acting on behalf of both profit and beneficence is a morally genuine action in Kant's sense. Such actions are both good and right.

What the disciplines in a business school provide are the social science studies that tell managers which beneficent actions are the most likely to be profitable. These disciplines provide the information on what beneficent management techniques will or will not contribute to long-term profitability. Since knowledge from the social sciences can be used to enhance profitability in ways that are immoral – for example, psychological insights that encourage people to spend more money than they should – I would argue that there is a moral responsibility on the part of business schools to make sure that business faculty distinguish between the morally appropriate use and the morally inappropriate use of the insights of social science in the management of a business. A firm managed by Kantian ethical theory and solid responsible social science research will have many opportunities to honor both the perfect duty to seek a profit and the imperfect duty of beneficence.

With this long discussion behind us, we can now turn to the issue of a Kantian theory of corporate social responsibility (CSR). CSR is the way that most corporations fulfill their imperfect duty of beneficence. However, since advocates of CSR make much of the business case for CSR, and given my own commitment to the "good ethics is good business" philosophy, it was important to show how these positions are consistent with Kant's view of the purity of the will and his insistence that the maxims of an action be based on the right reasons.

Kantian Ethics and Corporate Social Responsibility

The notion of "corporate social responsibility" (CSR) has, by now, a long history both practical and academic. Most major corporations embrace some notion of CSR as do many smaller corporations. However, until fairly recently, there was a considerable difference between U.S. corporations and European corporations on what counts as CSR, with those in the United States focusing on philanthropy and those in Europe focusing on what now counts as sustainability. Most readers are familiar with CSR Europe as it is called, but a few brief paragraphs of explanation might be in order.

In the "Green Paper,"[21] this strategic goal of sustainability is set out as a strategy of corporate social responsibility – CSR Europe, as it is called. The European Union (EU) does not view the function of the corporation as maximizing shareholder value. Rather, the EU argues that the corporation should be managed in a way that makes it sustainable and that sustainability is determined by financial success, environmental friendliness, and social responsibility. These are the three pillars of sustainability. An early definition of "sustainable development" was "development that meets the needs of the present without compromising the ability of future generations to meet its own needs." Financial success, environmental friendliness, and the solving of social problems are public values that the EU endorses.

These three factors of sustainability are measured by triple-bottom-line accounting. The goal of the EU is "to become the most competitive and dynamic knowledge based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion."[22] The Green Paper elucidates the concept as follows:

> Corporate Social Responsibility is a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. At a time when the European Union endeavors to identify its common values by adopting a Charter of Fundamental Rights, an increasing number of European companies recognize their social responsibility more and more clearly and consider it as part of their identity. This responsibility is expressed towards employees and more generally towards all the stakeholders affected by business and which in turn can influence its success.[23]

The official EU position builds a theory of corporate social responsibility right into its macroeconomic strategy. Within that strategy corporate social responsibility includes both concern for the environment and social responsibility. However, what is entailed by the "social responsibility" criterion? To provide some specifics, here are some items from the Green Paper.

> Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing "more" into human capital, the environment and relations with stakeholders. The internal dimension of corporate social responsibility includes enlightened human resources management, a concern with life-long learning for example, health and safety at work, helping workers adapt to change, and more friendly management of environmental impacts and natural resources. The external dimension includes cooperation with supply chain firms to promote CSR throughout the supply chain, a commitment to human rights, and a commitment to global sustainable development.[24]

As we see in Europe, corporate social responsibility means having the company take a stand on certain social issues. The issue need not be an issue of charity at all. In Europe it is often a commitment to human rights. The Green Paper is explicit in that regard. "Corporate social responsibility has a strong human rights dimension, particularly in relation to international operations and global supply chains."[25] In addition, nearly all European companies that commit to sustainability also commit to supporting a number of international human rights agreements both in their own business and in the business activities of their supply chains.

In summary, a corporation is to be judged positively if its corporate strategy is sustainable. A sustainable corporation is successful in achieving the goals under all three pillars of sustainability: financial success, environmental responsibility, and social responsibility. Social responsibility includes the corporation's support for solving social problems and for supporting human rights. A sustainable firm is managed for the interests of its stakeholders and discovers those interests through stakeholder engagement – usually through stakeholder dialogues. When managed in this way, the corporation is both socially responsible and financially successful.

One commonality between practitioners in the United States and practitioners in Europe is the belief that in order to be successful, there must be a business case for CSR. That is, CSR must be profitable. It is imperative to realize that business does not look upon corporate social responsibility as charity per se. Corporate social responsibility should be good business. There needs to be a business case for whatever is done. In the absence of a business case, business will not be supportive. Such a view is consistent with the analysis I gave earlier outlining the relationship between profit and beneficence. The imperfect duty of beneficence must be consistent with the perfect duty to seek profit.

Even today the majority of corporations take what Neil Chamberlain referred to as the "Limited Responsibility Thesis."[26] Chamberlain quoted Henry Ford II, who took a position on energy-saving automobiles, the one that dominated the auto industry until the early twenty-first century. You cannot expect companies to manufacture cars the public does not want. One wonders whether the collapse of oil prices in 2015 will change the buying habits of consumers with respect to energy-efficient cars. (Perhaps this issue is a better example for Schwartz's question earlier as to whether my insistence that beneficence be consistent with profit might lead toward ethically dubious results, namely that giving the public what it wants leads to environmental damage. My answer here is that you cannot expect car companies to make cars the public will not buy because any car company that did so would soon be out of business. Regulation is the only way to solve this dilemma.) So it is hard to argue with Ford. William C. Norris, the founder of Control Data in the 1950s, had established its reputation for corporate social responsibility so well that in the public's mind Control Data was better known for its social responsibility than for its business acumen. Indeed, in the 1980s the company failed to adapt to rapid changes in technology and its financial results suffered greatly. Norris retired in 1986, and Control Data was restructured as Ceridian Corporation in 1991. Many in Minnesota argued that Norris had succeeded as an exponent of corporate social responsibility but had failed to pay sufficient attention to business. Perhaps, it was argued, he had failed to appreciate the limits on social responsibility that a business must accept if it is to remain profitable. In the twenty-first century another one of the shining examples of CSR, Shore Bank in Chicago, went down in the financial crisis and went bankrupt in 2010. These examples – both positive and negative – confirm my theoretical perspective that corporate beneficence should always be consistent with the obligation to seek a profit and thus should be strategic as well illustrated by the quotation below.

How should a business limit its corporate social responsibility if it is to be both responsible and successful as a business? Practice strategic philanthropy. As Peter Hutchinson, when he was vice president of public affairs at Dayton Hudson (now Target), said, "The key is to run corporate responsibility like the rest of your business. The corporate responsibility plan must relate to the business plan."[27]

In the academy, the development of corporate social responsibility was one of the main academic interests of the Social Issues in Management Division of the Academy of Management. The Social Issues in Management (SIM) Division of the Academy of Management was founded in 1971. Philosophical interest in the concept came later and was often tied to stakeholder theory as developed by R. Edward Freeman and his students. For those not familiar with SIM, a brief account of the early academic interest in the concept might be useful.

Any starting point in the history of corporate social responsibility is somewhat arbitrary. The most comprehensive history of the concept in the United States has been published in 2012 under the direction of Kenneth Goodpaster.[28] References to the social responsibility of business appear in the 1930s in a number of academic books, including Chester Bernard's *The Functions of the Executive* (1938). Archie Carroll claims with considerable justification that the modern discussions of social responsibility begin with the 1953 publication of Howard R. Bowen's *Responsibilities of the Businessman*. In that work Bowen argues that corporate responsibility involves more than following the law and that business should become more professional. In 1960, Keith Davis articulated and expanded on what he called the Iron Law of Responsibility: "In the long run, those who do not use power in a manner which society considers responsible will tend to lose it."[29] The implications of this "law" were that since business had great power, it also had considerable social responsibility. Davis believed that it was in the self-interest of business to show that it is socially responsible. If businesses failed to act, they might lose their power. Davis thus began to articulate what later became known as "the business case" for corporate social responsibility.

In 1979, Archie B. Carroll characterized the responsibilities of business as economic, legal, ethical, and discretionary.[30] By 1991, Carroll had conceptualized these responsibilities in the form of a pyramid, and the discretionary category was replaced by a philanthropic category.[31]

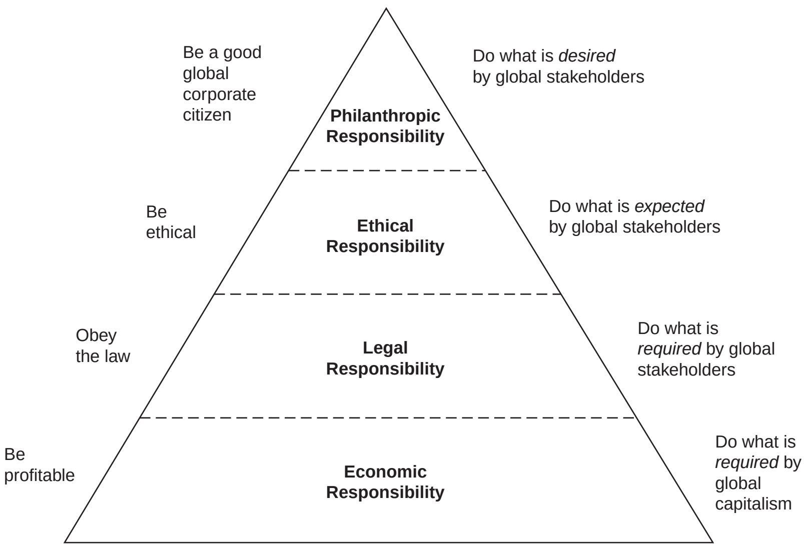

Figure 4.1 Archie Carroll's Pyramid of Corporate Social Responsibility.
Source: Archie B. Carroll, "Managing Ethically with Global Stakeholders: Present and Future Challenges," *Academy of Management Executive*, 18.2 (2004), 116. Adapted from Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons*, 34 (1991): 39–48.

As you can see from the pyramid, the foundation of corporate social responsibilities is the economic responsibilities that can be essentially summarized in the injunction to "Be Profitable." As you move up the pyramid, it is clear that your next responsibility is to obey the law. Higher up on the pyramid Carroll identifies the following ethical responsibilities: Do what is right, just and fair. Avoid harm. Finally at the top of the pyramid are the philanthropic activities, that Carroll identifies as being a good corporate citizen. A good corporate citizen contributes resources to the community to improve the quality of life. This distinction between the ethical and the philanthropic helps explain why some businesspeople including the late Elmer Andersen former CEO of the HB Fuller Company and former governor of Minnesota are adamant in arguing that business ethics is something that is always required, while corporate social responsibility is something different. CSR involves giving back to the community or helping solve social problems. One way of putting this is to say that seeking profit, obeying the law, and being ethical as required by Kantian ethics are perfect duties and the philanthropic responsibilities are imperfect duties. All must be integrated in a coherent management structure.

What also should be noted here is how consistent Carroll's characterization is with Milton Friedman's view. Friedman believes that corporations have the economic responsibility of creating shareholder wealth, but the responsibility to do that within the law and ordinary ethical customs. What Friedman denies is the philanthropic responsibility that sits at the top of the Carroll's pyramid.

In the first edition of this book I limited my own account to Kant's example in the *Groundwork*. Now all Kantian business ethicists with an interest in CSR link CSR to Kant's account of the imperfect duty of beneficence. In this edition, I join other Kantian business ethicists in taking seriously Kant's discussion of imperfect duties in his later work, *The Metaphysics of Morals*. In this section I compare and contrast my own Kantian account of CSR with those of David Lea, Jeffery Smith, and William Dubbink and L. van Liederkerke as found in their three respective articles.[32] I will also comment briefly on an attempt by Samuel Mansell to show that a Kantian duty of beneficence is consistent with a shareholder theory of the firm.

David Lea's article makes an extensive argument that the responsibility of managers to take account of the interests of nonfinancial stakeholders should be grounded in special imperfect duties rather than in stakeholder rights or in attempts to determine by law what such obligations would involve. The position he supports is that

[d]uties owed to non-shareholder stakeholders – all those directly affected by the operations of the firm – would be an example of special imperfect duties.… In the case of the stakeholders, the company has a *special imperfect duty* to act in the interests of the stakeholders because of the special relationship that exists between the firm and stakeholders.[33]

His defense of this position rests on the Kantian theory as found in Onora O'Neill's 1996 work.[34] The duty of beneficence is universal, is special because the interests that must be considered are in a relationship to the corporation (affected by the corporation), and is imperfect because of the discretion management has as to when and to what extent the duty is acted on. Lea puts my remarks from the first edition of this book into the rights camp for the grounding of CSR, and I do think there are connections between Kantian moral philosophy and the human rights literature. However, I do, as I think a Kantian must, give priority to obligations, and in Chapter 4 of the first edition I am clear in claiming that beneficence is an imperfect duty. What needs to be added to Lea's account is much more specificity as to what the imperfect duty of beneficence entails in the corporate context and how beneficence fits with the obligation of managers to seek profits. For a deeper analysis, I turn to the work of Jeffery Smith.

For my purposes here, I follow Smith who characterizes "beneficence" as follows:

In the broadest sense, the term "beneficence" refers to the virtue of considering and advancing the well-being of others. From a moral point of view, the ideal of acting in a beneficent manner expresses the notion that individuals should concern themselves not simply with refraining from actions that may harm or impede another's well-being. The independence and interconnectedness of human lives sometimes calls us to undertake positive action to support the well-being of others. The moral significance of beneficence is that it captures a considered judgment that we sometimes cannot remain *indifferent* to the lives of others; their goals, aspirations, pain suffering and happiness are a moral concern of ours.[35]

An essential point of agreement here is that a corporation, or the managers of a corporation, must do more than "avoid harm" with respect to social problems. Corporations, or their managers, should not be indifferent to social problems, particularly in the European case of CSR, to social problems of environmental degradation and violations of human rights. Many businesspeople and a fair number of academics think that doing something positive, rather than simply avoiding harm, is an add-on, something that is nice to do, something the manager can voluntarily assume, but not something that is required of management as a duty. To the contrary, Smith and I both agree that on the basis of Kantian moral philosophy, beneficence, and thus CSR, is a duty.

Smith's contribution to the discussion is his deeper discussion of duties in Kant's later ethical theory, especially in the *Metaphysics of Morals*. That work distinguishes duties of right from duties of virtue. As Smith correctly notes,

> Duties of right, for Kant, are duties that govern individuals' particular actions so that a basic level of justice can be ensured, more specifically, duties of rights are duties that can be legitimately enforced by the state in order to establish the background conditions for a civil society.[36]

With respect to the duties of virtue, Smith characterizes them as follows:

> Duties of virtue are duties that govern the rational will of individual agents or, in Kant's terms, their *internal* freedom. These duties do not limit or constrain our actions, per se, but identify ends that our rational planning must take into account when we decide what kind of life to lead.[37]

Smith and I agree that any duty to CSR is not a duty of right. Indeed, one of the strengths of Smith's analysis is his insistence on the fact that although the duty of beneficence is always present, the response of managers as to how to carry out this duty is voluntary and not subject to either a set of rules or state determination.[38]

It is common to interpret Kant as saying that imperfect duties are duties that we can honor sometimes but not on all occasions. Indeed, I have often written that way in both the first edition of this book and in subsequent papers in which I have tried to reconcile Kant's insistence that the only morally worthy act is the one done from duty or because it is right and the notion that good ethics is good business. Just before beginning this section, I indicated that the imperfect duty of beneficence could not trump the duty of a manager to seek profit in a publicly held firm. That way of putting it sounds as if I am saying that when the duty of beneficence conflicts with the duty of a manager to seek a profit, the duty of beneficence must give way; in those circumstances the duty of beneficence does not apply.

However, upon reading and studying Smith's piece, I think that Smith is correct in his more nuanced view. Imperfect duty, and thus the duty of beneficence, is always a duty. That is because imperfect duties are duties about how we are to live, or in the business context, they are duties about how managers are to manage the strategy of their companies. However, how these duties are implemented depends on particular circumstances. Smith correctly points out that on this point Kant does consider particular circumstances, contrary to what many of his contemporary critics think.[39] Taking Smith's points seriously, I would say that when the manager incorporates CSR into corporate strategy, he or she should not allow CSR to undermine long-term profit. That does not make the manager's duty to include CSR in corporate strategy disappear.

As an aside, it is interesting to note that the duty of beneficence to others does not override one's duties to oneself nor one's happiness. Willingness to help others, Smith says, becomes integrated into the goals of one's own life. There is no necessary disconnect, he argues, between the pursuits of one's life and the happiness of others.[40] This insight is important when we shift to the duty to incorporate CSR into corporate strategy.

It is also important to note that both Smith's conception and my adaptation of Smith are consistent with R. Edward Freeman's insistence that there be no separation between business decisions and decisions regarding ethics. Smith avoids any separation thesis with respect to CSR.

So what does the duty of beneficence require in the corporate context?

> A corporate analogue to the duty of beneficence, thus, would include both the idea that it is a duty for corporate managers to remain mindful of the humanity of their stakeholders while recognizing that instituting respect for a corporation's stakeholders will be highly contextualized, depending upon the knowledge possessed by the corporation, its industry and expertise, geographic location, financial capabilities, and other duties that may encumber corporate assets.[41]

I concur. My way of putting it is that Kant's duty of beneficence requires that CSR be included as an essential element of corporate strategy and that it be implemented in terms of that strategy. It is not CSR instead of profits, or no CSR if profits are adversely affected. Rather, it is a type of CSR that is incorporated into a profitable long-term strategy for a publicly held firm.

Dubbink and van Liederkerke's piece has some important similarities to Smith's.[42] Both stress the distinction between duties of right and duties of virtue. Both pieces contend that at least some duties of virtue are always present, and thus whether or not to fulfill that duty is not voluntary. You always do have an obligation to be beneficent. However, the two papers appear to diverge sharply with respect to what it means for a duty of virtue to be always present and thus analogous to a perfect duty. For Smith, the duty of beneficence is always present in the sense that it requires that we take beneficence into account as we live our lives, but how we are beneficent depends on circumstances and is voluntary. In coming to this conclusion Smith builds his case pretty much exclusively on the Kantian texts.

Dubbink and van Liederkerke analyze the duty of beneficence more broadly by grounding it in political theory – specifically in democratic free market capitalism. I suppose that is why "Neo-Kantian" is found in the title. Dubbink and van Liederkerke divide the duties of virtue into those that are required and those that are voluntary.[43] The problem with that approach is that it appears that some imperfect duties look very much like perfect duties, and thus a distinction that Kant thinks important is blurred. As a result of private correspondence with Wim Dubbink, I know that Dubbink and Liederkerke do not think the perfect/imperfect duty distinction is as important as the distinction between duties of right and duties of virtue. I tend to think their importance is equivalent, since I think, for Kant, duties of right are perfect duties and duties of virtue are imperfect duties. In any case, the issue for them is whether "individuals must independently acknowledge the full set of general rules, otherwise morality would no longer be about self-governance."[44] As I now understand them, they argue that some of the duties of virtue are always duties in the sense that they must be considered when acting. But to look at them in that way is to look at them in much the same way that Smith does. Whenever the executives of a company make decisions, the duty to consider how to be beneficent in a democratic capitalist society is always present. They realize that acting on such a duty is limited by the need to be financially successful. On the basis of the position I have developed in this chapter, I would argue that acting on the duty of beneficence requires that so acting be integrated into the perfect duty to make a profit. Further, I contend that one successful way to do that is to make beneficence a core part of corporate strategy. What I find interesting here is that each of us working independently and from somewhat different perspectives has come to similar conclusions as to how CSR can be grounded in Kantian moral philosophy.

One of the interesting conclusions that can be drawn from the work of the three perspectives on a corporate Kantian duty of beneficence is that, to a large extent, all three perspectives find such a duty consistent or fairly consistent with the obligation of managers to pursue a profit. Samuel Mansell has argued explicitly that Kant's duty of beneficence is consistent with shareholder theory as exhibited in the philosophy of Milton Friedman.[45] Mansell also marks the distinction between duties of right and duties of virtue and notes that duties of virtue are imperfect duties.[46] Mansell then discusses one of my attempts to argue for a corporate duty of beneficence, as well as one by David Lea.[47] Since I find Mansell's critical comments on these attempts to be not fully developed, I pass them by here in order to focus on Mansell's positive thesis. Mansell asserts without much argument that the majority of shareholders approve of corporate policies aimed at improving the happiness of a wide range of corporate stakeholders.[48] At this point Mansell and I take very different paths. Although I agree that shareholders at beneficent companies such as Target at least implicitly approve such policies, I need to be persuaded that this is the case at most or even many publicly held corporations. That is why I integrate the duty of beneficence and the perfect duty to seek shareholder profit into corporate strategy. This close integration of the manager's perfect duty to seek profit and the manager's duty of corporate beneficence is what I consider to be one of my major contributions to this issue. The other is that my analysis shows that the goal of "good ethics is good business" is consistent with Kant's view that the maxims of a truly genuine moral action must be done for the right motive – done out of duty.

Transition to Chapter 5

In the final chapter I turn to Kant's cosmopolitanism and show how international business when practiced in accord with Kant's moral philosophy can bring about universal moral standards. I also reconsider, from the first edition, my optimistic conclusions about international capitalism leading to world peace. Those thoughts were written in different times, before the terrorist attacks of 9/11 and the adverse impacts of tribalism and religious fanaticism that have continued since that time. In doing so I return to the substantive and intense debates that separate enlightenment philosophy from its postmodern pragmatist critics.

Notes

1 I. Kant, *Foundations of the Metaphysics of Morals*, 1787 L. W. Beck, Trans. (Indianapolis, IN: Bobbs Merrill, 1969), 9, 15–16.
2 Ibid., 13.
3 For example, see L. Kohlberg, *The Philosophy of Moral Development* (San Francisco: Harper and Row, 1981).
4 I. Kant, *Lectures on Ethics*, L. Infield, Trans. (Indianapolis, IN: Hackett Publishing Company, 1981), 16. These lectures are actually transcribed from student notes taken between 1775 and 1780. Thus, they could be dismissed as an early statement of Kant's views. However, the *Metaphysics of Morals* (1797), published later, is also relevant to this discussion. Also note from note 1 that the *Foundations of the Metaphysics of Morals* was published in 1787.
5 I. Kant, *The Metaphysics of Morals, Part 1: The Metaphysical Elements of Justice*, 1787, J. Ladd, Trans. (Indianapolis, IN: Hackett Publishing Company, 1999), 24.
6 R. Henson, "What Kant Might Have Said: Moral Worth and the Over-determination of Dutiful Actions," *Philosophical Review*, 88 (1979): 39–54.
7 B. Herman, *The Practice of Moral Judgment* (Cambridge, MA: Harvard University Press: 1992), 8.
8 Ibid., 12.
9 R. Frank, *Passions Within Reason* (New York: W. W. Norton, 1988), 69.
10 Ibid., 253.
11 N. E. Bowie, "The Paradox of Profit," in N. D. Wright, eds., *Papers on the Ethics of Administration* (Provo, UT: Brigham Young University Press, 1988), 97–120.
12 F. F. Reichheld, *The Loyalty Effect* (Cambridge, MA: Harvard Business School Press, 1996), 18.
13 Quoted in J. C. Collins and J. I. Porras, *Built to Last* (New York: Harper Business, 1994), 16.

14 Quoted in W. E. Deming, *Out of the Crisis* (Cambridge, MA: MIT Center for Advanced Engineering Study, 1982), 99.
15 J. Heath, *Morality, Competition, and the Firm* (Oxford: Oxford University Press, 2014).
16 This argument was put in its formal form in N. E. Bowie, *Business Ethics in the 21st Century* (New York: Springer, 2013), 61. The argument was further elaborated in my article, "Why Kant's Insistence on Purity of Will does not Preclude Application of Kant's Ethics to For-Profit Businesses," in *Wealth, Commerce, and Philosophy: Foundational Thinkers and Business Ethics*, E. Heath and B. Kaldis, eds. (Chicago: University of Chicago Press,) forthcoming.
17 I recognize that some argue that the contract is between management and the corporation per se. This is usually parsed out as saying that management has a contract to maximize the long-term wealth of the corporation, which in turn maximizes the wealth of shareholders. The standard phrasing in the business school is as I have stated it in premise 1. I also recognize that some states have specifically permitted corporations to consider the interests of other corporate stakeholders.
18 This argument was introduced in N. E. Bowie, *Business Ethics in the 21st Century*, and elaborated in N. E. Bowie, "Why Kant's Insistence on Purity of Will Does Not Preclude Application of Kant's Ethics to For-Profit Businesses." These next several paragraphs are closely based on the argument in the latter article.
19 I was reminded of this fact by Amy MacArthur.
20 The "business judgment rule" shields managers from legal liability when their actions lead to a loss of profitability. To benefit from the shield of the business judgment rule, the managers must have acted with loyalty, candor, care, and good faith. Traditionally it is the Chancery Courts of Delaware that have been most sympathetic to managers in determining that the manager has acted with loyalty, candor, care, and good faith. Thus, it is no surprise that so many corporations are incorporated in Delaware. For a more detailed account of the "business judgment rule," see J. M. Holcomb, "Business Judgment Rule," in *Encyclopedia of Business Ethics and Society*, v. 1, R. W. Kolb, ed. (Los Angeles: Sage Publications, 2008), 237–39.
21 Commission of European Communities, *GREEN PAPER Promoting a European framework for Corporate Social Responsibility* Brussels, July 18, 2001.
22 Ibid., 3.
23 Ibid., 4.
24 Ibid., 8–15.
25 Ibid., 13.

26 N. Chamberlain, *The Limits of Corporate Responsibility* (New York: Basic Books, 1973)
27 Quoted in Center for Business Ethics Cultures, *Corporate Responsibility: The American Experience*, K. E. Goodpaster, Executive Ed. (Cambridge: Cambridge University Press, 2012) 313.
28 Ibid.
29 K. Davis and R. L. Blomstrom, *Business and Society: Environment and Responsibility*, 3rd ed. (New York: McGraw –Hill Book Company, 1975), 50. The relationship between social responsibility and power is discussed more fully in K. Davis, "Five Propositions for Social Responsibility," *Business Horizons*, 18 (June 1975).
30 A. B. Carroll, "A Three-Dimensional Model of Corporate Performance," *Academy of Management Review*, 4 (1979): 497–505.
31 A. B Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons*, 34 (1991), 39–48
32 D. Lea, "The Imperfect Nature of Corporate Responsibilities to Stakeholders, *Business Ethics Quarterly*, 14.2 (2004): 201–18; J. Smith, "Corporate Duties of Virtue: Making (Kantian) Sense of Corporate Social Responsibility," in D. G. Arnold and J. R. Harris, eds., *Kantian Business Ethics: Critical Perspectives*, (Cheltenham: Edgar Elgar Publishing, 2012), 59–75 and W. Dubbink and L. van Liedekerke, "A Neo-Kantian Conceptualization of CSR," *Ethical Theory and Moral Practice*, 12.2 (2009): 117–36.
33 D. Lea, "The Imperfect Nature of Corporate Responsibilities to Stakeholders," 207.
34 O. O'Neill, *Towards Justice and Virtue: A Constructive Account of Practical Reasoning* (Cambridge: Cambridge University Press, 1996).
35 J. Smith, "Corporate Duties of Virtue: Making (Kantian) Sense of Corporate Social Responsibility," 59.
36 Ibid., 64.
37 Ibid.
38 Ibid., 64. Section 4 68–72. Amy MacArthur has also insisted in private conversation that the imperfect duty is always present although it does not always have to be acted on.
39 Ibid., 66–67.
40 Ibid., 68.
41 Ibid., 69.
42 W. Dubbink and L. van Liedekerke, "A Neo-Kantian Conceptualization of CSR," 130–32.
43 Ibid.
44 Ibid., 130.

45 S. Mansell, "Shareholder Theory and Kant's 'Duty of Beneficence'," *Journal of Business Ethics*, 117 (2013): 583–99.
46 Ibid., 586–89.
47 D. Lea, "The Imperfect Nature of Corporate Responsibilities to Stakeholders," *Business Ethics Quarterly*, 14.2 (2004): 201–17.
48 At this point Mansell moves to another aspect of the problem. The issue that seems foremost in Mansell's mind is "the practical question of *how* a corporate duty of beneficence is to be realized through managerial action"; "Shareholder Theory and Kant's 'Duty of Beneficence'," 591. His discussion, although interesting, is not relevant to the central issues here.

5 *Kantian Ethics and International Business*

One of the key features of the Enlightenment was its cosmopolitan perspective. Enlightenment thinkers were strongly critical of religious and nationalistic values, since they believed that local customs and religious doctrines interfered with the development of a cosmopolitan spirit. One of the great strengths of the Enlightenment was its assertion that all human beings were endowed with reason and had claims to natural rights. Another strength was the ability of Enlightenment thinkers to see beyond national boundaries. Charles Beitz has characterized Kant as a cosmopolitan in the sense that national boundaries have at most a derivative significance for him. What is of most concern to Kant is the universal human community. The internal activities of a state are subject to moral criticism from those outside it, and the citizens of any given state may have obligations that extend beyond national boundaries. Kant is cosmopolitan in that sense.[1] As Terry Nardin has said,

> It was one of the great achievements of eighteenth-century European thought on international relations that it was able to articulate the idea that international society is defined by the deference of states, despite their differences, to the authority of a common body of practices and rules.… Thinkers from Montesquieu and Voltaire, to Burke, Martens, and Kant were able with increasing clarity to recognize the society of states as a distinct historical institution, one not to be confused with the great society of mankind.[2]

Capitalism is also cosmopolitan in its outlook and thus supports Enlightenment cosmopolitanism. Many writers in the late twentieth century argued that it is economic relations among people from different countries that provide the basis for an international ethic. Economic cooperation also provides the foundation for a universal morality. Charles Beitz has cited Kant as one who believes that "international cooperation creates a new basis for international morality."[3] I will show that Beitz is correct: Kant appears to be firmly within this tradition.

In this chapter I shall indicate how Kant's cosmopolitanism is related to international business. In so doing I shall return to some of the themes in Chapters 1 and 2. Especially important in this discussion will be Kant's concept of universality. I start by showing that there is a universal market morality that cuts across the boundaries of all capitalist countries. As international trade has expanded, I believe we can see empirical evidence that this market morality has become or is becoming a common feature of international trade worldwide. The argument for the existence of this market morality is based on the first formulation of the categorical imperative. In the last part of the chapter I shall demonstrate how international capitalism can be supportive of Kant's ideal of perpetual peace as well as of democracy and human rights – at least in theory.

The "at least in theory" wording is new in this edition. In the late 1990s, when the first edition of this book came out, the claim seemed factual. Some kind of democratic capitalism was in the ascendancy almost everywhere. An international businessperson could feel at home in New York, Shanghai, London, or Milan. A common set of values enabled a rapidly rising international business. The twenty-first century, at least so far, with 9/11, terrorism, and religious fanaticism, has undermined that cosmopolitan consensus. I shall have more to say about this later in the chapter as well.

As a practical matter, I will argue that an international Kantian capitalism, and more specifically Kantian-run multinational corporations, can contribute to democracy and world peace by providing a moral foundation for human rights – a foundation that will provide a moral basis for the conclusions of the United Nations Ruggie report on the responsibilities of multinationals with respect to human rights. I show the implications of the Kantian approach regarding the obligations of multinationals to eliminate sweatshop conditions at their suppliers. Finally I will argue that multinationals can meet their obligations under the imperfect duty of beneficence by supporting the United Nations Sustainable Development Goals. In so doing they will be profitable – yet one more case of "good Kantian ethics is good business."

The Morality of the Market

A central issue in international business ethics is the problem of relativism. In ordinary language, the issue can be summarized by the question: When in Rome, should you do as the Romans do? Kantian ethical theorists have an answer to that question, and it is not as foundationally universalist as one might expect. As I argued in Chapter 1, a practice not in violation of the categorical imperative is morally permissible. So long as a maxim of action would not be self-defeating if universalized, does not treat the humanity in persons as merely a means but as an end itself, and can be publicly advocated so that it was acceptable to all members of the moral community, it is morally permissible. Obviously, two different cultures could adopt some different moral principles, and yet the principles of both would pass the tests of the categorical imperative. Thus, Kantian international business ethics does allow for what Donaldson and Dunfee characterize as moral free space.[4]

However, it is widely believed that there are some practices that should not be acceptable within a capitalist framework because they could not pass the test of the categorical imperative. Arguments for this point and the identification of such practices are found in my discussion of the first formulation of the categorical imperative in Chapter 1. The notion that there are some universal norms for capitalist business practice is not limited to me. Richard De George says this about international business ethics:

> There are also basic norms necessary for the conduct of business such as keeping promises, honoring contracts, telling the truth, and respecting the lives and integrity of those with whom one engages in business. Even on issues of extortion and gross bribery there is general consensus that these are wrong, even though prevalent and tolerated in some countries.[5]

In his first book on international business ethics, Tom Donaldson defended a list of ten universal fundamental rights that imposed duties on international corporations. With respect to all ten rights, multinationals had the duty to avoid depriving individuals in other cultures of those rights, and with respect to six of those rights, multinationals had a duty to help protect individuals in other cultures from being deprived of those rights.[6] In other words, multinationals had a negative duty to avoid deprivation and in many cases a positive duty to prevent others from depriving people of those rights.

A decade after Donaldson had published this first international business ethics book, *Ties that Bind*, coauthored with Thomas Dunfee, appeared. The list of ten universal fundamental rights was replaced by universal "hypernorms." What are hypernorms and how are they discovered?

> Hypernorms constitute principles so fundamental that, by definition, they serve as "second-order" norms by which lower order norms are to be judged. Defined in this way and reflecting the deepest sources of human ethical experience, hypernorms are discoverable, we have reason to hope, in a convergence of religious, political, and philosophical thought.[7]

During the twenty-first century, these hypernorms have been a focus of critical discussion that has only recently subsided.

In the first edition of this work I developed my own argument for certain universal norms in international business ethics and provided empirical evidence that these norms were increasingly being accepted by multinational corporations across cultures. Later a strategy colleague and I provided a theoretical transaction cost argument for the existence of these norms.[8] Thus, I provided arguments for these universal norm based in part on economic theory. I argue that there is a market morality behind any market economy. Still later, we developed a more sophisticated version of the argument.[9] This second edition includes an advanced version of the earlier argument.

While teaching executive MBAs in Minnesota and Polish executives MBAs at the Warsaw School of Economics, I discovered that multinational corporations sought to instill their core values across all their subsidiaries. Thus, for example, the 3M Corporation had a universal policy against bribery. 3M employees were not allowed to pay bribes anywhere – even in countries where bribery was commonplace. I was tempted to believe that this statement of commitment to policy might just be ethical window dressing. However, my Polish students who worked for multinationals – U.S., German, and French – complained that these companies insisted on doing things the way they were done in their home countries. These Polish students could not understand why these multinationals did not attempt to adapt more to their host countries. In other words, why don't multinationals adopt more of a "When in Rome, do as the Romans do" policy?

For our purposes here, I limit the discussion to the core ethical values of a multinational corporation (MNC). One reason that a MNC might give for making their core ethical values universal across all their operations is because it is the right thing to do. So long as those values were consistent with the demands of the three formulations of the categorical imperative, such an approach would be quite Kantian.

But there is an economic argument that would also give the same results. This argument is limited to those MNCs that believe that their core ethical values are an essential part of their brand. For example, being a socially responsible corporation is part of the Johnson and Johnson (J & J) brand. J & J believes that its reputation as a socially responsible corporation gives it a competitive advantage. Companies such as J & J could give the following argument for applying their own ethical values universally.

An Argument for Universal Ethical Values

1. Certain ethical values are believed by the management of a MNC to provide the MNC with a competitive advantage.
2. Those ethical values that provide a durable competitive advantage abroad will tend to be knowledge based, be embodied in individual employees or firm routines, and be characterized by high asset specificity.
3. Highly specific assets associated with high return should not be diluted.
4. If ethical values are such assets, they should not be diluted.
5. If ethical values vary among subsidiaries, these assets will be diluted due to the phenomenon of cognitive dissonance.
6. Therefore, a MNC should have common ethical values in all its subsidiaries.

Let us examine the argument in detail. The first premise limits the argument to those corporations that believe that their ethical values give them a competitive advantage. The second premise describes the nature of ethical values or perhaps more accurately of an ethical culture in the MNC.

Some explanation of the term "high asset specificity" is required. "High asset specificity" is a key concept in transaction cost economics. From the transaction cost economics perspective, the first and perhaps most important factor for assessing a transaction and identifying the appropriate governance structure is the degree to which individuals involved in the transaction must invest dedicated assets. Dedicated assets are transaction specific and have high asset specificity. Suppose a large retailer seeks a supplier to provide a product with specifications that are unique to the retailer. To provide the product, the supplier must invest in the resources that will enable it to meet the unique specifications of the retailer. The resources would be dedicated assets and have high asset specificity. On the other hand, suppose a supplier provides products for a number of retailers all of whom have the same specifications. In these circumstances, the resources of the supplier are not specific to one retailer. In such cases we say that the resources have low asset specificity; they are not dedicated to one retailer.

Using the terminology of transaction cost economics, premise 2 asserts that the nature of a moral climate is such that it has high asset specificity and thus cannot be easily copied. Given premises 1 and 2, we have MNCs that believe that their ethical values are a competitive advantage, and if the transaction cost economics story is right, these MNC's have a competitive advantage that is hard to copy. For one doing corporate strategy, this is an ideal situation. For example, Johnson and Johnson believes it has an asset that gives it a competitive advantage and it is an asset that is very difficult for its competitors to copy. Given that, it is easy to see why premise 3 is true. An asset that gives a MNC a competitive advantage and is difficult to copy is an asset that it does not want to dilute. Premise 4 simply identifies the asset in this argument as ethical values.

Suppose a MNC considers adopting the "When in Rome, do as the Romans do" philosophy with respect to ethical values. In other words, if bribery is widely practiced in a country where it does business, the company policy would be that it is permissible to bribe in those countries. However, employees could not bribe in countries where bribery was forbidden and not practiced. Since employees on track to be senior executives at the MNC do multiple postings abroad, in such an environment they would suffer from the psychological phenomenon of cognitive dissonance. Cognitive dissonance is a state of discomfort or tension that results when people hold or are asked to hold incompatible beliefs. In our example of the MNC that adopts the "When in Rome, do as the Romans do" strategy with respect to bribery, up-and-coming senior managers would be told that with respect to bribery it is morally permissible to bribe or it is not permissible to bribe, according to the circumstances. Strictly speaking, there is no logical contradiction here, since whether the employee should bribe or not bribe depends on the laws and practices of the countries where the MNC does business. However, as a matter of psychology, there is a tension, because if people think that bribery is wrong (or right), they would tend to think that it is right or wrong universally. Most people cannot contextualize their core ethical values.

Adding the knowledge regarding cognitive dissonance to the knowledge about the nature of the competitive advantage of ethical values gives us the conclusion that a MNC of that type should impose its ethical values universally on all its subsidiaries. Interestingly, transaction cost economics gives us an argument why a firm like Johnson and Johnson should not bribe.

Up to this point, the argument is based on a premise that the MNC believes that its ethical values give it a competitive advantage. Suppose that the belief expressed in premise 1 is true. In fact, the ethical values do give the company a competitive advantage. In other words, the beliefs of those companies identified in premise 1 are true beliefs. We could then rewrite premise 1 as follows:

1. Certain ethical values of a MNC provide the MNC with a competitive advantage.

What should the response be of a MNC that adopts the "When in Rome, do as the Romans do" strategy? Such a MNC could hold to its relativistic strategy. However, other things being equal, economists would say that such stubbornness would have to end in failure. If the MNCs that do not have the relativistic "When in Rome, do as the Romans do" strategy really do have a competitive advantage, then eventually those companies will win out in the competitive struggle. A company that has the relativistic strategy will eventually, other things being equal, go bankrupt. In that case the wise strategy is to try to develop an ethical culture with ethical values that are adopted universally. In other words, the appropriate strategy is to make a universal commitment to certain ethical values, as part of the MNC's brand. This strategy is rational, even though it is hard to achieve. It is hard to achieve because an ethical culture with universal values has high asset specificity and is, therefore, hard to copy. Nonetheless, the company's strategy should be to try.

This conclusion that the company with the relativistic values should change its strategy and impose its values universally is a stepping stone to the most important part of the transaction cost economics argument for truly universal values. The careful reader will note that all the transaction cost economics argument has shown so far is that companies with universally adopted ethical values will have a competitive advantage. But what the business ethicists and others are looking for are universal ethical values that are adopted by all MNCs and that those universally adopted values be the correct moral values. Let us consider an argument that shows that ethical values that give MNCs a competitive advantage will tend to be adopted by all MNCs. We will then provide arguments to show that these ethical values are the values that business ethicists and especially Kantian business ethicists could endorse.

An Argument for Truly Universal Standards of Business Ethics

1. Certain ethical values provide a competitive advantage for MNCs and contribute to their economic success.
2. Thus, other things being equal, MNCs will be driven by market forces to adopt those ethical values that are necessary to provide a competitive advantage and economic success.
3. Thus, other things being equal, market forces will favor the development of at least a common core of ethical standards. Thus, all MNCs will ultimately adopt nearly identical standards whatever their beliefs of the competitive advantage of ethical commitments.

This formulation offers an argument for the adoption for a common core of ethical values that MNCs will impose across all their subsidiaries. But what will those values be?

In what follows I argue that anti-bribery values, nondiscrimination values, and values of honesty and trust are three examples of core ethical values that will be adopted by MNCs. Not only are these values well grounded in Kantian ethics but, as I shall argue, they are well grounded in economics as well – other things being equal. Once again we have a case where good ethics is good business. Whether or not my hypotheses regarding these universal values will be verified is still uncertain. There have been some positive trends in the right direction, especially with nondiscrimination, but the evidence is still mixed.

An interesting aspect of these three claims for universal values in a market morality is that they are available for empirical testing. That is, they can be formulated as hypotheses about the shape or evolution of international business. Let us transform these statements about market morality into hypotheses.

H1 As international business increases, the amount of bribery in international business will decrease.
H2 As international business increases, the amount of discrimination in business practice will decrease.
H3 As international business increases, the level of honesty and trust among business participants will increase.

In what follows I provide the theoretical argument for the existence of such universal values in a market morality as well as any evidence that the hypotheses regarding the existence of these values are correct.

An Anti-Bribery Ethic

Certainly one of the most discussed ethical issues in international business ethics is the issue of bribery. (For purposes of this discussion, bribery is distinguished from extortion and facilitating payments.) If a maxim permitting bribery were universalized, it could not pass the test of the categorical imperative. And in many instances, bribery would be economically inefficient as well. Consider cases where bribery both increases transaction costs and distorts efficiency. Imagine a company offering a bribe. Suppose the company could have received the contract on the merits of its product without paying the bribe. If so, paying the bribe adds to its costs and it will lose out to competitors that have equally good products but incur fewer costs since they do not bribe. One might think that the cost of bribing is insignificant, so that this argument works in theory, but it has little practical import. However, one must take into account reputation effects. Once a company gets a reputation as a briber, there is no end to the demands that will be made upon it. On the other hand, a company that has a reputation as a non-briber may lose in the beginning, but if it has a valuable product, its reputation as a non-briber will pay big dividends. Other things being equal, companies that do not bribe have a competitive advantage that will drive companies offering bribes out of business. Since every company has staying in business as its fundamental purpose, a company that offers a bribe is involved in a pragmatic contradiction. Publicly held companies have a moral obligation to stay in business and make a profit; thus, the offering of bribes by a publicly held corporation rests on a maxim that results in a pragmatic contradiction, and is wrong.

Now, consider the case of a company that accepts a bribe. In so doing it is presumably receiving a product of less quality than it would have received for the same expenditure. That puts the company that receives a bribe at a competitive disadvantage such that, other things being equal, companies receiving a bribe will be driven out of business. Again, the reputation effect only exacerbates the situation. It is bad business to have a reputation as a bribe taker. Again, as with the case of publicly held companies that pay bribes, publicly held companies that receive bribes have adopted a maxim that places them in a pragmatic contradiction, and is wrong. Since the reputation argument is so powerful, it is no surprise that every effort is made to keep bribes secret.

Unfortunately, as Ed Soule has pointed out to me, many bribes are not inefficient in this sense. This is especially true when bribery is a small portion of a firm's cost structure and thus has a relatively small effect on total firm cost and competitiveness. As Soule points out, suppose two aircraft manufacturers produce a plane for $100 million. Firm A provides $5 million for marketing while firm B provides $5 million for bribes. In cases like these there is no impact on efficiency. Indeed, for some products (e.g., commercial and military aircraft) it may actually be more efficient to bribe than to market. That is what makes bribery in these cases so difficult to eliminate.

Soule certainly has a point, although he does, I think, underestimate the long-run costs of a negative reputation as a briber. Even if the efficiency argument does not always work (after all, other things are hardly ever equal), one can still show that bribery is morally wrong and in violation of the categorical imperative. The problem with bribery is that it distorts the value between parties. That is, the buyer is denied a portion of value that is siphoned off by the bribe taker. In this case, bribery is tantamount to theft. Likewise with the receiving of bribes. Normally the recipient is not the company but an individual acting in his own capacity. In these cases, economically, a bribe functions like a discount. However, it also functions as a kind of theft, since the discount goes to the individual and not to the company. The individual has no right to the "discount." Thus, the arguments from Chapter 1 showing that theft is in violation of the first formulation of the categorical imperative apply here. As you recall, that argument showed that a universalized maxim allowing theft in a private property economy is self-contradictory. If there were a sufficient amount of theft, the system of private property would be undermined. Thus, you would expect responsible businesspeople to band together and urge that bribery be treated as an unacceptable business practice. As I argue later in this chapter, this is exactly what is happening in the international arena.

The aforementioned efficiency arguments assume that bribery is not a common practice in the country under discussion. If bribery were the norm – and in some countries unfortunately it is the norm – the efficiency argument breaks down. If most businesses insist on the payment of a bribe, then it is very difficult for an individual company to avoid paying one if it wants to do business in that country. (An exception would exist for those companies that have a unique product that is sorely needed.)

The existence of countries where bribing in business is widespread moves the argument to a different level of analysis. The analysis must move from the level of the individual firms to the level of the country itself – to the macroeconomic level of the country. The fact is that bribery, or corruption as it is often called at this level, places a heavy burden on the economy of the country.

CleanGovBiz is an initiative by the Organisation for Economic Co-operation and Development (OECD) to help governments fight corruption. The organization provides a realm of statistics on the macro costs of corruption. Citing a 2014 World Bank report, CleanGovBiz points out, an estimated $1 trillion in bribes is paid each year. It also cites International Monetary Fund statistics that show that countries with high levels of corruption have 5 percent less investment than countries that are relatively corruption free.[10] Given the level of corruption and bribery, it may seem that the hypothesis that bribery will decrease will be verified due to the extent of country-wide corruption is misplaced, but as we shall see, there are grounds for hope.

A Nondiscrimination Ethic

One immoral practice that is found in various societies around the world is discrimination, be it based on religion, sexual orientation, ethnicity, or the color of one's skin. In addition, discrimination against women is rampant in certain countries, and even in countries like the

United States, certain industries or companies within an industry have a reputation for a hostile environment for women. Such discrimination is in clear violation of the respect-for-persons formulation of the categorical imperative. Moreover, discrimination in the market violates the first formulation of the categorical imperative as well. That kind of discrimination involves a pragmatic contradiction. This argument proceeds in a way parallel to the argument against some forms of bribery.

The first step in the argument is to show that discrimination by a given company puts that company at a competitive disadvantage. That first step was made more than half a century ago by Milton Friedman:

> [T]here is an economic incentive in a free market to separate economic efficiency from other characteristics of the individual. A businessman or an entrepreneur who expresses preferences in his business activity that are not related to productive efficiency is at a disadvantage compared to other individuals who do not. Such an individual is in effect imposing higher costs on himself than are other individuals who do not have such preferences. Hence in a free market they would tend to drive him out.... The man who objects to buying from a Negro, for example, thereby limits his range of choice. He will generally have to pay a higher price for what he buys or receive a lower return for his work. Or, put the other way, those of us who regard color of skin or religion as irrelevant can buy some things more cheaply as a result.[11]

A firm that discriminates on bases other than productivity, price, or quality puts itself at a competitive disadvantage. Other things being equal, in the long run it will be put out of business. Since surviving in business and making a profit is the essential purpose of business, a maxim of discrimination is self-defeating. For publicly held companies surviving in business and making a profit is a moral obligation, so a manager in a publicly held corporation who discriminates is putting the business at a financial risk and thus has a pragmatically contradictory maxim that makes his acts of discrimination morally wrong.

A rejoinder to Friedman's argument runs as follows: Although the analysis is correct for a society where lots of firms do not engage in discrimination, it is not correct for a society where discrimination on something other than quality or price exists. In the southern part of the United States, discrimination against African Americans was enforced by racial segregation well into the 1960s. A white-owned firm could not capture the benefits of nondiscrimination by serving

African Americans. This argument is similar to the one we considered earlier when we discussed the difficulty in being a non-briber in a society where bribery is endemic. And the response to this argument is similar to the one we gave about bribery.

We shift from the institutional or firm level to the societal level and point out that a society that practices widespread discrimination is, other things being equal, at a competitive disadvantage with respect to societies that do not discriminate or where discrimination is minimal. In the old Soviet Union, women physicians were commonplace. In the United States, however, until the last quarter of the twentieth century, women were encouraged to be nurses rather than physicians. Not using the capabilities of 50 percent of the populations is a serious drain on efficiency.

As we go deeper into the twenty-first century, discrimination on the basis of sexual orientation has become an issue in the United States, especially with respect to same-sex marriage. Before the Supreme Court ruling on the issue, several states, including Indiana and Arizona, passed so-called religious freedom statutes that many believed would have permitted businesses to refuse to serve gays and lesbians if homosexuality were against the business owner's sincerely held religious beliefs. Business leaders in those two states were outspoken opponents of these laws, and several used the economic power they had within the state to force changes in the laws. The largest corporation in the world, Apple, has a gay CEO, and the tech industry in general is a strong force against homophobia. Even in the 1960s, when business firms were less comfortable with controversy about discrimination, several large business firms were leaders in helping bring an end to segregation in the south. At this point, I think it is safe to say that non-discrimination is in the interest of business, and that business will push back against those in the society who would prefer to discriminate.

Changing social norms with respect to discrimination are occurring in other major industrial countries. When I first began to make academic trips to Japan in the early 1990s, the only women in a business context that I met served me tea. In the twenty-first century, I met more Japanese women who were at least nominally involved in the business decision-making process. Nonetheless, Japan still has a way to go in this regard, although the current prime minister, Shinzo Abe, seems to accept the kind of economic analysis presented here and is pushing hard for more active participation by women in the marketplace.[12]

One of the clearest counterexamples with respect to nondiscrimination is the existence of discrimination against women in much of the Middle East. Much more will be said about this issue when we consider the implications of the Enlightenment philosophy of cosmopolitanism, especially Kant's cosmopolitanism, on the practice of international business and on the prospects for a worldwide peaceful capitalism.

Honesty and Trust

A final example concerns honesty in business relationships. We have already seen from Chapter 1 that economic exchange requires the keeping of contracts. In the international context, some might argue that the centrality of contracts in business relationships is a thoroughly Western idea. Many Eastern countries are less legalistic, and there are occasions when Eastern domestic business deals have proceeded on the basis of a handshake rather than formal contracts. Perhaps contract-making is not essential to capitalist business enterprises.

However, in the international context, often and at least initially, parties not only do not know each other particularly well but really may not know well the culture of the businesspeople with whom they are dealing either. In such circumstances, we would expect to see an increase in contract-making even in those countries where lengthy explicit contracts are not a cultural norm. However, once the comfort level has increased between businesspeople of different cultures, there is less need for lengthy contracts. Moreover, there are reasons to think the process of building trust might move more quickly than one would think.

More importantly, in international business among people from very different cultures with different social norms, increasing trust among strangers in the full sense of that word becomes more important. At this point I will show how the growth of trust in people who are not like us can contribute to the efficiency of international business.

Fortunately, the practice of international business brings with it certain factors that contribute to the development of trust. Even though the background cultures of businesspersons may differ, business professionals have much in common through their common membership in a profession. For example, as Ed Soule has pointed out, a foreign currency trader in Hong Kong has more in common with a foreign currency trader in London than he has with his next-door neighbor, and a divisional controller for IBM in Austin has more in common with an IBM divisional controller in Germany than he does with his aunt in Des Moines. Thus, international capitalism does have this homogenizing and leveling effect that makes the development of trust among people from different ethnic backgrounds possible.

Scholars have already studied how trust is possible among people in temporary business relationships, for example, audit teams, juries, civic commissions, and actors. Dawes has argued that this trust is possible because we have confidence in the role that John plays rather than in John personally. Thus, if I am a quality control engineer and I meet John who is a quality control engineer but from a different ethnic background, I can trust John because of his role as a quality control engineer. The fact that he is from a different ethnic background does not matter for the purposes of our business interaction. Emphasis on common roles in international business is a trust builder and thus, for the reasons presented in Chapter 1, is an efficiency producer.

Of course, an international business should try to discriminate between those potential partners who are trustworthy and those who are not. To trust those who are not worthy of trust is a foolish and ultimately failed business strategy. However, failure to trust merely because a potential partner is of a different race, religion, ethnic origin, or sexual orientation is also a foolish and ultimately fatal business strategy. A quotation from an Indian-born engineer captures both the spirit of contemporary international business and the cosmopolitan Enlightenment ideal: "My body was made in India, my science learned in England." A heterogeneous trusting culture like the United States should give the United States an advantage over homogeneous non-trusting cultures, other things being equal.[13]

If successful international business depends on the development of trust, then we should expect to see an increase in trust in international business among those of different backgrounds. Just as international capitalism promotes an anti-bribery ethics and norms of nondiscrimination, so it also promotes trust among business partners from different backgrounds.

Can Kantian Capitalism Contribute to Universal Rights, Democracy, and World Peace?

In *Perpetual Peace*, Kant recognized that international peace and justice could only exist among republics or, to fudge the terminology and blur some distinctions, democracies. Barack Obama, in accepting the Nobel Peace Prize, pointed out that America has never gone to war with a democracy, and political scientists are aware of the generalization that democracies do not go to war with one another. Kant argued that nature does not present obstacles that make the achievement of perpetual peace impossible, but neither does nature make the achievement of perpetual peace necessary. Thus, creating the conditions for perpetual peace requires that all citizens have an obligation to bring about democratic forms of government.

Although Kant may sound like George W. Bush here, he did not believe that countries should make other countries democracies by force. No country has the right to force another country to be free. As Paul Guyer has argued in his book on Kant, Kant himself was an opponent of colonialism. Guyer said:

> Kant launches a powerful attack upon the rampant European colonialism of his own time, arguing that no matter what the cultural and political conditions of another region, foreigners have no more than the right to visit in order to offer their goods and ideas, never a right to establish themselves forcibly in another person's territory no matter how exalted or crass their aims may be.[14]

Of course, Kant's nonintervention doctrine may be too strict. When a government commits genocide against its own people, then I believe the international community of democracies should intervene, as NATO did in Serbia. We faced this issue in the 1990s in Rawanda and we have faced this issue recently in the Sudan and other parts of Africa. And of course, this issue is very much present today with the existence of ISIS, Al Qaeda, and various other forms of radical Islam.

However, even if there are some circumstances where intervention in other countries is required – and some of these circumstances have been spelled out in John Rawls's work *The Law of Peoples*[15] – the default position is against intervention. Perhaps democratic institutions could be encouraged and supported by the spread of international capitalism, especially international capitalism with a Kantian flavor.

The effect of capitalism on the quality of life has been much debated. Albert O. Hirschman has classified the views of the impact of capitalism on the quality of life as civilizing, destructive, or feeble.[16] The thinkers of the Enlightenment, including Kant, have generally tended toward the civilizing camp. More specifically Kant, along with several of his contemporaries, believed that commerce contributed to universal moral values, to the establishment of democracy and to world peace. I have used the word "commerce" here rather than "capitalism" because capitalism had not really developed during the end of the eighteenth century. The theoretical foundations had been laid in 1776 with the publication of Adam Smith's *The Wealth of Nations*. Any claim that capitalism or even commerce could have these beneficial consequences was more theoretical than based on the observation of commercial practices at that time. Recall that the end of the second Hundred Year War and the signing of the Treaty of Paris would not occur until 1815.

Since there is a significant difference between capitalism as it is practiced today and Kantian capitalism that represents a moral ideal, the arguments that follow are basically theoretical. Although we find elements of Kantian capitalism being practiced today, we still have a long way to go before we can say that Kantian capitalism is a commonplace. So at this point the link between Kantian capitalism and the building of a peaceful democratic world order with universal values can only be theoretical. This emphasis on theory represents a bit of a shift from the stance taken in the first edition, where in the later part of the twentieth century there seemed to be empirical evidence that capitalism was contributing to the rise of democracy around the world and to world peace. At the very least, there was considerable optimism that a peaceful democratic capitalist world order was imminent. At this point in history, we need to depend on another Kantian enlightenment value – hope.

The Argument That Capitalism Supports Democratic Institutions

The argument that capitalism supports democratic institutions has been developed by a number of thinkers, but toward the end of the twentieth century, its leading spokesman was Francis Fukuyama. Fukuyama argued:

> But in the long run the industrialization process itself necessitates a more highly educated population and a more complex division of labor, both of which tend to be supportive of democratic political institutions.[17]

For a while, it appeared that there was a growing correlation between the adoption of capitalism and the adoption of more democratic institutions. However, lately, the picture has become much more cloudy.[18] China has become much more capitalistic[19] than it was in the 1990s but lately, under President Xi Jinping, it has seemed to become more authoritarian as well. Russia has also become more authoritarian under Vladimir Putin than it was at the end of the Soviet Union under Mikhail Gorbachev. The trend in South America has not favored democracy either. Turkey's economy has progressed well, but it too has become more authoritarian.

Not all the news is bad. Myanmar has been considered capitalist for a considerable time but only recently has it become more democratic. (It still has a long way to go, especially with its treatment of ethnic minorities.) And in North Africa, Tunisia seems to be making the transition to democracy. However, for the last nine years, the overall worldwide trend has been in the wrong direction.

It still seems true that although there are capitalist economies that are not democratic, there are no democratic countries that have a centrally planned economy. This is a point that has been made by Friedrich von Hayek, Milton Friedman, and Francis Fukuyama. If this generalization holds, at least we could say that capitalism would be a necessary condition for a democracy, although not a sufficient one.

One of the strongest proponents of the view that capitalism is supportive of democratic institutions is Milton Friedman. In *Capitalism and Freedom* he writes:

> Economic arrangements play a dual role in the promotion of a free society. On the one hand, freedom in economic arrangements … is an end in itself. In the second place, economic freedom is also an indispensable means toward the achievement of political freedom.[20]

To defend this general assertion, Friedman points out that freedom of speech is more meaningful as long as alternative opportunities for employment exist. However, these alternatives diminish – sometimes dramatically – as the role the government plays in the economy increases. In a highly diversified economy, someone has a better chance to publish views that are contrary to the views of a given editor, government, or even the majority of the public. If one can find some audience that is interested, one can usually find a publisher, even one who disagrees with the views of the author. After all, what the publisher really wants is to make a profit. Opportunities to make a profit often overcome the distaste for a certain idea. China and Russia, however, provide a cautionary tale here. Both have become much more capitalistic, but their governments are authoritarian. Both interfere with free speech and other forms of free expression, and that interference has increased recently. It is possible that with ever-increasing exposure to the outside world and with the power of social media, the political regimes in both countries will become less authoritarian, but at this point the jury is still out.[21]

Friedman argues that capitalist economic institutions are supportive of democratic institutions in another way as well. In capitalist economic institutions, economic transactions are individual and voluntary. In principle, no one enters an exchange unwillingly. Political decisions, on the other hand, even in democracies, are coercively enforced on the minority who take the other side. Persons who do not believe that the budgets for national defense or education are set at the right amount must nevertheless submit to majority rule. Whenever a decision that could be made in the market is made in the political arena, an unnecessary element of coercion is added. As coercion increases, the losers become more resentful. This increases social tension and creates strains in the social fabric that can threaten democratic institutions. Americans, for example, are fiercely divided over the proper amount to spend for defense as compared to domestic programs. Indeed, Americans seem fiercely divided over almost every political issue.

Another argument has been advanced by Fukuyama in an earlier book, *The End of History and the Last Man*, and reiterated in *Trust*. Fukuyama believes that human beings are motivated not only by material gain but also by a desire for recognition. He expresses this desire for recognition in almost Kantian terms:

> All human beings believe that they have a certain inherent worth or dignity. When that worth is not recognized adequately by others, they feel anger; when they do not live up to others' evaluation, they feel shame; and when they are evaluated appropriately, they feel pride.[22]

Fukuyama then uses this universal desire for recognition as a main premise in his argument for the relation between capitalism and democracy. Fukuyama argues that before capitalism, the struggle for recognition manifested itself in the struggle for political dominance, often under the guise of nationalism or religion. What capitalism provides is another arena for the struggle for recognition to take place.

This in turn allows the possibility for less bloody struggle in the political arena and for democratic institutions to arise:

> Modern liberal democracy seeks to satisfy this desire for recognition by basing the political order on the principle of universal and equal recognition. But in practice liberal democracy works because the struggle for recognition that formerly had been carried out on a military, religious or nationalist plane is now pursued on an economic one.[23]

Both of these arguments were meant to apply to capitalism as it is practiced. However, suppose capitalism as practiced could evolve into the kind of Kantian capitalism that has been advocated in this book. Chapter 2 provides arguments for eliminating vast inequality of income through increasing the minimum wage and for providing meaningful work for employees. Suppose that respect for persons required a strong safety net for the unemployed and the underemployed. Capitalism as practiced in the Scandinavian countries comes closer to the Kantian capitalism I advocate than does the finance-based capitalism of the United States. That kind of capitalism has another advantage in promoting democratic institutions. High unemployment and large inequality lead to instability and social unrest. Historically we have seen that instability and social unrest are inimical to democratic institutions; we see this recently especially with the collapse of the so-called Arab Spring, as either chaos or authoritarian rule returned to many countries in the Middle East. Kantian capitalism could act as a safety valve as the world grapples with the issue of finding employment for its youth, especially those that are untrained or poorly trained.

The Argument That Capitalism Supports World Peace

A main contention of the Enlightenment was that a cosmopolitan worldview supported by international commerce would support world peace. For the Enlightenment, war was the greatest evil – an evil caused in part by an excessively fervent nationalism. Early supporters of free trade, which included a number of philosophers, believed that international commerce provided a means for linking together the nations of the world peacefully and democratically. John Stuart Mill said:

> It is hardly possible to overate the value, in the present low state of human improvement, of placing human being in contact with persons dissimilar to themselves and with modes of thought and action unlike those with which

they are familiar. Such communication has always been and is peculiarly in the present age, one of the primary sources of progress.[24]

And as nations of the world conduct business with one another, they will behave like one another. As David Hume put it, "Where several neighboring states have a very close communication together, either by policy, commerce, or traveling, they acquire a similitude of manners, proportioned to the communication."[25]

Both the founder of capitalism, Adam Smith, and Kant made an explicit connection between commerce and world peace. Smith said:

At the particular time when these discoveries were made, the superiority of force happened to be so great on the side of the Europeans, that they were enabled to commit with impunity every sort of injustice in those remote countries. Hereafter, perhaps, the natives of those countries may grow stronger, or those of Europe may grow weaker, and the inhabitants of all the different quarters of the world may arrive at the equality of courage and force which, by inspiring mutual fear, can alone overawe the injustice of independent nations into some sort of respect for the rights of one another. But nothing seems more likely to establish this equality of force than that mutual communication of knowledge and all sorts of improvements which an extensive commerce from all countries to all countries naturally, or rather necessarily, carries along with it.[26]

Kant expressed the same sentiments:

In the end, war itself will be seen as not only so artificial, in outcome so uncertain for both sides, in aftereffects so painful in the form of an ever-growing war debt (a new invention) that cannot be met, that it will be regarded as a most dubious undertaking. The impact of any revolution on all states on our continent, so clearly knit together through commerce will be so obvious that other states, driven by their own danger but without legal basis, will offer themselves as arbiters, and thus they will prepare the way for a distant international government for which there is not precedent in world history.[27]

In these quotations we have the standard views of the Enlightenment. We should emphasize the ways in which people are alike rather than the ways in which they are different. Emphasizing difference produces conflict. Commerce is a way of bringing people together rather than keeping them apart. If commerce is successful in bringing people together, then the chances for peace among nations improve.

Another way of making this point is to combine the two arguments here. If it is true that a Kantian capitalism would promote democratic institutions and if the observation that democracies do not go to war with one another is true, then we have another way in which commerce promotes world peace. So in theory there is a connection among Kantian capitalism, the formation and stability of democratic institutions, and world peace.

Multinationals, Human Rights, and the United Nations

One way that contemporary Kantian multinationals can be supportive of world peace is by assisting the UN in two very concrete ways. For one, multinationals can be instrumental in helping the UN achieve its Sustainable Development Goals (SDGs). Another way is to respect and protect human rights. Let us consider each of these in turn, beginning with human rights.

Recently, a number of business ethicists have turned their attention to the Ruggie principles developed through the auspices of the United Nations. John Ruggie is the special representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises. The following quotation gives the flavor of the Ruggie Principles:

> The framework rests on three pillars: the State duty to protect against human rights abuses by third parties, including business, through appropriate policies, regulations, and adjudication; the corporate responsibility to respect human rights, which means to act with due diligence to avoid infringing on the rights of others, and to address the adverse impacts that occur; and greater access for victims to effective remedy, judicial and non-judicial.[28]

The Human Rights Council of the United Nations endorsed these principles on June 16, 2011. Business ethicists have addressed a number of issues raised by the Ruggie Principles. One of the most comprehensive discussions can be found in a 2012 special issue of *Business Ethics Quarterly.*[29]

Philosophers, especially business ethicists, would have a number of questions at the outset regarding the Ruggie Principles. What is the basis for claiming there are human rights, and what is the justification for claiming that business has "the corporate responsibility to respect human rights, which means to act with due diligence to avoid infringing on the rights of others, and to address the adverse impacts that occur"? As for the latter question, Ruggie himself argues that the argument is instrumental – a version of the "good ethics is good business" argument. Ruggie apparently believed that providing a moral basis for these obligations of corporate responsibility for business was likely to be too controversial and divisive. It was better to have a prudential argument that the signers would more likely accept. Wesley Cragg has correctly, I believe, challenged this view.[30] The essence of Cragg's argument is that the due diligence requirement of the Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect, and Remedy" Framework is based on ethical grounds, unlike the prudential basis for the rest of the requirements put on business. The phrase from the report that provides the basis for this claim is the position of the Special Representative to the Secretary General (SRSG) that due diligence requires "meaningful engagement and dialogue" with rights bearers whose rights might be impacted by company activities.[31]

Whatever the decision of the SRSG regarding the prudential basis for most business responsibilities regarding human rights, business ethicists have provided sound arguments for the obligation of businesses to protect and respect human rights as well to assist in remedying human rights abuses. This in itself is relatively new. The consensus view has been that the obligation to protect human rights rested with states or with states and individuals. But protecting human rights was not generally perceived to be the responsibility of corporations. It was widely believed that if corporations acted within states to protect human rights, they were meddling in the internal affairs of the state. Thus, Royal Dutch Shell argued that in 1995 they had no right to interfere with the trial and execution of Siro Wiwa by the Nigerian government. Given the deep involvement of Royal Dutch Shell in extracting oil from Nigeria and using Nigerian troops to protect its interests, this excuse rang hollow in the public arena. Some consider this incident to be a turning point in the rejection of the view that large multinationals should not interfere in the internal affairs of a state where they do business. Indeed, Royal Dutch Shell itself changed its philosophy on this matter. Also at about this time, activists discovered the Alien Tort Claims Act, which gives an alien (noncitizen) access to U.S. federal courts for violations of the law of nations (international law) or for violation of a treaty with the United States. I say discovered because the act was passed in 1789 and it was not until the 1980s that the act was used to file civil suit against corporations that violated human rights. After some initial excitement, a series of federal court cases cast in doubt the scope of the act for use in this way.[32] Toward the end of the twentieth century, the human rights issue was focused on the responsibilities of multinationals for human rights abuses committed in their supply chains. I will have more to say about this issue shortly. In the twenty-first century, activities at the UN regarding human rights shifted the focus of the discussion yet again.

Since Kant never explicitly discussed human rights, one can ask: What can Kantian ethics bring to the discussion? My answer is that Kantian ethics provides the normative foundation for human rights, and that Kantian foundation has been recognized by a number of scholars, including business ethics scholars working on international business ethics and human rights issues.

Denis Arnold wrote an early paper defending the thesis that corporations had a duty to respect human rights.[33] In that article, Arnold provides an account of human rights for transnational corporations where those rights have three essential features: (1) they have corresponding duties; (2) they are grounded in human agency; and 3) they are basic rather than aspirational. Essentially, feature (2) provides a Kantian grounding for these rights. Arnold claims that human rights are grounded in human agency rather than divine will or hypothetical contractual agreements. Arnold then says:

> At a minimum, human agency involves the ability to reflect on one's first order desires or preferences at a second order level and to determine for oneself which desires or preferences to act upon. Agents are capable of making and following their own judgments and are not merely subject to the causal laws of nature.[34]

Such an account, Arnold goes on to argue rests on the Kantian claim that agents possess a unique dignity as a result of being self-governing beings. Significantly, with respect to the duties of transnational corporations, these human rights include not only freedom rights but also welfare rights (in the older terminology, not only negative rights but also positive rights). Thus, what Kant provides is the foundation for the obligation of multinational corporations to respect human rights. Indeed, Kant provides the moral foundation for the Ruggie corporate duties with respect to human rights as well as the moral foundation for the Ruggie report that Wesley Cragg demands.

Arnold believes that such a grounding in human agency has implications for the specific obligations that transnational corporations have with respect to human rights. After claiming that respecting human rights is a perfect duty (Kantian language), Arnold goes on to claim:

> On the view defended here, workers have a legitimate claim right to have their physical health protected while at work and TNC's have a duty to take proactive measures to protect the health of workers. TNC duties include ensuring the physical security of employees by educating them about workplace hazards on the cutting floor and in the chemical shop and providing the safety equipment necessary for employees to protect their health. TNC duties also include respecting the workers right to liberty by refraining from forcing workers to work overtime and by permitting union activity. And TNC duties require respecting the workers right to subsistence by ensuring that employees are paid wages for a standard workweek that allows them to purchase those goods (e.g., food, shelter, transportation, and other basic necessities) necessary for normal human functioning.[35]

I am not arguing that these specific employee rights can be derived directly from Kantian ethics. Indeed, the approach that Arnold takes here is similar to the one I have taken in both editions of *Business Ethics: A Kantian Perspective*. Kantian ethics provides a foundation, but the detail must be provided by a careful examination of culture, history, and empirical knowledge as to what are the facts of the case. In addition, there is more to moral theory than Kant's categorical imperative and the Metaphysics of Morals. John Rawls, an acknowledged Kantian, developed his theory of justice on a Kantian foundation. Similarly, Kant can serve as the foundation for a theory of human rights, although the details of such a theory will go beyond what Kant himself professed.

The logic of the argument concerning human rights and the Ruggie report, although not in the chronological order, is as follows: Cragg has shown that the Ruggie proposal regarding multinationals cannot and should not be justified on prudential grounds alone, but rather requires a moral foundation. Arnold, in the process of arguing for a set of duties that TNCs have with respect to human rights in the workplace, also knows that a moral foundation for rights is required, and that one such foundation is Kantian in nature. With an agent-centered account of human rights based on autonomy and dignity, one can then justify certain basic rights that in turn require certain duties on the part of employers in the workplace. The entire dialectic is not one of deriving duties from absolute Kantian rules. Rather, the Kantian role is properly foundational but then fleshed out by a rich understanding of circumstances and the facts of the case.

It should be pointed out that Arnold's concern with TNC obligations may be wider than those obligations one finds in the Ruggie report. Arnold has long been concerned with TNC obligations surrounding sweatshops – a topic that requires a bit more discussion. In an article I coauthored with Arnold, we took an explicit Kantian line in spelling out the obligations of transnational corporations with respect to sweatshops.[36]

Out first task was to ground these obligations in normative theory – a task we accomplished by invoking Kant's respect-for-persons principle using the analysis of respect and dignity found in Chapter 2 of this volume. However, a discussion of sweatshops raises some additional concerns. First, the ethical demands that are put on multinational corporations are demands that they take responsibility for organizations they do not own. Some might describe this as the problem of vicarious moral responsibility. Second, critics of our approach – and those with different approaches to establishing the obligation to eliminate sweatshops – raise both Kantian and practical objections. Since workers choose to work in sweatshops, what is the justification for interfering with their choice – at least the choice of those who lose their jobs as a result of rising wages? That is the Kantian objection. Secondly, for those who take the traditional view that the purpose of a publicly held firm is to seek profit, eliminating sweatshop conditions interferes with that obligation – the one described in Chapter 4 as a perfect duty. How can that be justified?

A Kantian must take the critic's claim that sweatshop critics want to interfere with the autonomy of sweatshop workers seriously, since autonomy is so central to Kantian ethics. With respect to the fact that sweatshop workers choose to work in sweatshops, the standard response is to say that the "choice" does not meet the conditions of a genuine choice. We have already considered this issue in Chapter 2. In an advanced economy, where there are usually a number of opportunities and where there is a strong safety net for hard times, the choice argument in those economies has some plausibility. (I recognize that statement itself is controversial.) However, in the economies where sweatshops are located, there is no safety net, and the only "alternatives" are ones that put the health and indeed the survival of one's family and oneself in more dire straits. The analogy between the choice of whether to take a job in a sweatshop and the choice one confronts when the gunman demands "your money or your life" seems to be a good one. Nearly all philosophers deny that the choice presented by the gunman is a genuine choice.

Recently Michael Kates has turned the tables on those who argue that sweatshop workers choose to work there, and thus their free choice should not be interfered with. Kates's strategy is to accept for purposes of the argument the economic and moral assumptions of the "choice argument" as Kates calls it. He then shows that it does not follow from the choice argument that it is morally wrong to interfere with the choice of sweatshop workers. So the choice argument, he claims, fails on its own terms.[37] To provide the details of Kates's complex argument would take us too far afield at this point, but it is worth giving the readers a flavor or his approach. Its significance lies in the fact that if you do not accept the kinds of arguments I and many others are making against the view that the choice of a sweatshop is genuinely free, the freedom – or choice – argument still does not work. Kates's strategy is to show that sweatshop employees' choice falls victim to collective choice problems. The regulation of sweatshops is the only way to achieve what the sweatshop employees would want. Using Kates's example, suppose the two choices are working nine hours a day for X dollars and working ten hours a day for X dollars, with X being the same value in both cases. Now, each rational sweatshop employee would choose the nine-hour day, but given the nature of the collective action problem, each would rationally end up choosing to work the ten hour day for the same amount of money each would receive working the nine hour day.[38]

Moreover, in most cases the attempt to improve the conditions under which sweatshop workers labor does not interfere with their choice, for they would certainly choose the improved conditions if they could avoid the collective action problem.

But there is a variant of the interference with the choice argument that raises a number of complex issues. This version of the interference with choice arises from the allegation that the attempt to improve sweatshop conditions will lead some of those currently employed to be laid off. The argument is based on the economic principle that if you increase the price of something, you reduce its demand. Thus, allegedly improving the conditions for sweatshop workers by increasing their minimum wage increases unemployment. And for those who would be laid off, there is an interference with their choice, since they would obviously choose to work in the sweatshop to being unemployed or to have to work in a job where the pay and conditions are even worse. Gordon G. Sollars and Fred Englander used this criticism against our 2003 article.[39]

In our original article and in our response to Sollars and Englander's criticism, we tried to formulate a maxim that would not allow interference in sweatshops and cited economists who disputed the conventional wisdom that improving sweatshop conditions would lead to decreased employment among sweatshop workers.[40] Whether or not improving sweatshop conditions increases unemployment among sweatshop workers remains controversial. However, one point seems clear. Improving sweatshop conditions does raise the cost of sweatshop labor, but that cost can be met by increasing the cost of the product or by decreasing the profits of the sweatshop manufacturer. Since the products of sweatshops are mainly manufactured for those living in developed economies, the fairest way to absorb the cost of improved conditions for the sweatshop workers is to raise the price of the product.

The response of the critics is that raising the price of the product will make the firms that do so less competitive against those that do not. In reality, the public reaction of persons in the developed world to the revelations concerning the conditions under which the products they purchased were made was one of extreme discomfort, to say the least. Charles Kernaghan, then president of the National Labor Corporation, organized a campaign to improve conditions in sweatshops. In his 1996 congressional testimony, Kernaghan described conditions in a Honduran sweatshop that made a line of Kathie Lee Gifford apparel sold at Wal-Mart. Thirteen- and fourteen-year-old girls were working twenty hours a day to make sweaters. Upon learning of those conditions, Kathie Lee Gifford broke down on national television.

Over the course of many years, sweatshop allegations were made against Liz Claiborne, Fruit of the Loom, the Gap, JC Penny, Disney, Target, and Levi Strauss. One campaign that received intense public interest involved Nike. Public pressure forced the apparel industry to develop an industry-wide code for the treatment of sweatshop workers. Similar codes in other industries followed. In effect, people in the developed world made the correct moral choice: where increased cost resulted from improving the conditions of sweatshop workers, the cost fell on consumers. Significantly, the cost does not seem to be especially high.

Placing obligations on multinationals to improve working conditions at sweatshops does present some special issues for Kantians. The paradigm case for moral responsibility is individual responsibility. An individual can be held responsible for his or her conduct, but normally not for the conduct of another. The most obvious exception is cases where parents are held responsible for actions of their children. Kant's ethics were developed primarily within the individual responsibility framework. In Chapter 3 I made the case for holding a corporation morally responsible. Not only could an individual or individuals within a corporation be held responsible, but the corporation as a moral agent could also be held responsible for its corporate conduct.

In discussing sweatshops, however, the critics of multinationals are saying that multinationals should be held morally responsible for their suppliers. Traditionally suppliers have been treated as independent businesses, and there is a reason for looking at them in that way. A sweatshop that makes sweaters may make sweaters for numerous multinationals. Thus, as a practical matter, it is impossible to determine how much responsibility should fall on each of the many corporate buyers of the sweatshop-manufactured sweaters.

In the Arnold/Bowie piece we endorsed the view of Michael Santoro that holding an MNE morally responsible for the activities of its supplier was analogous to the use of the doctrine of *respondeat superior*, according to which a principal is responsible for the acts of its agent conducted in the course of the agency relationship. As Santoro pointed out, the classic example of this doctrine is the responsibility of employers for the acts of its employees.[41] Although I continue to think the analogy is a reasonable one, I expanded on this topic in my book *Management Ethics*. A key to that discussion was the claim that sweatshop practices were in violation of human rights; in particular, I accepted Arnold's claim that most sweatshops were in violation of some or all of the following sections of the United Nations Declaration of Human Rights: Articles 3, 4, and 5, which prohibit forced labor, indentured servitude, corporal punishment, and seriously unsafe working conditions; Article 23, section 5, which prohibits terminating employees for organizing or joining a union; Article 21, section 2, which prohibits discrimination; and article 24, which provides the basis for an obligation to pay a living wage.

The Kantian position defended here takes the position that the respect for the humanity in a person principle is the foundation on which the moral case for human rights rests. A violation of a genuine human right is a violation of the categorical imperative. In Chapter 2 I argued that coercion was a clear and serious violation of the respect for persons principle – a position that is backed by the unanimous view of Kant scholars. Forced labor, indentured servitude, locking employees in factories so that they cannot escape during an emergency such as a fire – all are acts of coercion and are morally wrong. This seems uncontroversial.

That people have a right to a living wage can also be grounded in Kant's view of autonomy and respect for persons. Recall from Chapter 2 that autonomy or freedom is more than freedom from external causation; freedom also involves the ability to strive to achieve one's goals and projects. It is a quick step to argue that it is a human right to possess those things that are necessary for the achievement of any goal or project whatsoever, and thus there is an obligation on the part of some entity to provide them if the agents cannot provide them on their own accord.

I realize that some of these comments are not universally accepted, but most rights theorists endorse and argue for the existence of "positive" rights like the right to a living wage. So long as "positive" human rights are accepted – and on Kantian grounds they must be – failure to pay a living wage when one can do so is a violation of the human right to a living wage, a violation of the respect-for-persons principle, and a moral wrong.

But with respect to coercion on the part of sweatshops, who has the responsibility to prevent such coercion, and with respect to a living wage, who has the responsibility to provide it? Why does the responsibility fall on the multinational? Some would argue that agency and the duty to supervise are keys to determining responsibility, but traditionally the supplier has not been considered an agent of the multinational, so there is no duty on the part of the multinational to supervise. The traditional view, however, is too simplistic.

Using Nike as an example, we know that Nike enters into a contract with various suppliers to produce its athletic shoes. Nike puts quality controls on its suppliers. Why can't Nike also insist that its suppliers not violate human rights? As Ed Freeman would argue, so-called business issues and moral issues are tied together. Nike's brand would suffer if it produced poor-quality athletic shoes, and it would suffer when its supplier violates human rights. But one could reply that the reputational argument is not really a moral argument as to why the multinational should take responsibility for imposing these human rights conditions on their suppliers.

Suppose I intend to enter into a contract to do something with a party who will commit a serious moral wrong while fulfilling my contract. Further suppose that I know or ought to know that the other party will do this. Wouldn't it be morally wrong for me to enter into a contract with such party? It is not so much, or just, that I should take responsibility for the behavior of another. Rather, my moral responsibility is not to enter into a contract with another when I know or ought to know the other party will commit a moral wrong in fulfilling the contract. If I really want the contract, then it is my responsibility at that point to insist that in fulfilling the contract they do so without committing a moral wrong. Thus, Nike ought to know that violations of human rights and the categorical imperative that is the foundation of human rights is a moral wrong, and Nike ought to know what conditions prevail in the factories of their suppliers, and when those conditions violate human rights, it is wrong for Nike enter such a contract. If Nike really wants the contract, then it should insist that the athletic footware be manufactured in a way that does not violate human rights.

This argument seems irrefutable to me when discussing coercion. However, it may not apply to the right to a living wage when there is an adequate safety net provided by the state. For example, many people in the United States who work for the minimum wage arguably do not receive a living wage. But with the minimum wage and government transfers, their total income arguably does provide a living wage. Whether there is a moral requirement for a company to provide a living wage in that context would require extended discussion. However, with the case of sweatshops, the extended discussion is not needed, since the countries that have sweatshops do not have sufficient safety nets.

So the obligation to pay a living wage falls on the supplier unless the supplier is unable to do so, in which case I would argue it is up to the multinational to pay enough for the product so that a living wage can be provided. The use of industry-wide codes would protect multinationals from those who would try to gain a competitive advantage by not paying their suppliers more. I submit that the history of the recognition of sweatshops and the attempts to eliminate them have followed a moral logic similar to the one discussed earlier. The crux of the argument is that one ought not enter into a contract with another when one knows that the other party will commit a moral wrong in fulfilling that contract. If the contract is that important, get the other party to fulfill it without committing a moral wrong. It is this kind of reasoning that enables a Kantian to say that multinationals have an obligation to make sure that their suppliers do not violate human rights.

Another way to make this point is to say that with respect to paying a living wage, the obligation on the multinational to see that a living wage is paid is not an imperfect duty or a duty of benevolence, but rather a perfect duty required by the respect-for-persons principle and by a full understanding of the situations under which sweatshops exist.

Beneficence and the United Nations Sustainable Development Goals

Another way to promote peace and prosperity is for multinationals to fulfill their imperfect obligation of benevolence (corporate social responsibility) by finding ways to help the UN achieve its SDGs. It is important to point out that I am not arguing that supporting the SDGs is required by Kantian moral philosophy. Rather, I am saying that a natural and convenient way for multinational corporations to honor their obligation of benevolence is to support the SDGs. Moreover, for those who argue that the essential purpose of the corporation is profit, I also believe that the UN SDGs provide opportunities for multinationals to make a profit. In other words, there is a perfect opportunity here for multinational corporations to do well by doing good.

My strategy here is identical to the one I used in Chapter 2 when I argued that a natural way for a corporation to support the positive autonomy of its employees was for it to provide meaningful work, and that in so doing it would also contribute to making the firm profitable. That was another case of doing well by doing good.

The seventeen UN SDG's are as follows:

1. End poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture

3. Ensure healthy lives and promote well-being for all at all ages
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
5. Achieve gender equality and empower all women and girls
6. Ensure availability and sustainable management of water and sanitation for all
7. Ensure access to affordable reliable, sustainable, and modern energy for all
8. Promote sustained inclusive and sustainable economic growth, full and productive employment, and decent work for all
9. Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation
10. Reduce inequality within and among countries
11. Make cities and human settlements inclusive, safe, resilient, and sustainable
12. Ensure sustainable consumption and production patterns
13. Take urgent action to control climate change and its impacts
14. Conserve and sustainably use the oceans, seas, and marine resources for sustainable development
15. Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development

The call on multinationals to help alleviate poverty is hardly new. For many years, a chief concern of international businesses has been the lack of business opportunities in the underdeveloped world. The underdeveloped world presented opportunities in minerals and other natural resources, meaning that the economies of the underdeveloped world were predominantly resource based. Attempts to move those societies along a path to more economic diversification and greater prosperity face serious obstacles: tribalism, lack of education, inadequate infrastructure, and a high level of disease.

Perceptions changed as a result on an article by C. K. Prahalad and Stuart L. Hart that made the case that there was a fortune to be made at the bottom of the pyramid. The article was later expanded into a book.[42] At the level of real-world action, the academic and activist Jeffry Sachs, director of the Earth Institute at Columbia University, has spear headed drives to end poverty, including examples of how small and nontraditional businesses can be successful in that endeavor. Currently Sachs is champion of the UN SDGs. As one looks at the UN Development Goals, it does not take much imagination to see how multinationals can both assist in the achievement of the SDGs and be profitable. After the adoption of the goals, several leading business publications, including Forbes, pointed out how the SDGs were good for business.[43] The United Nations Global Compact provides a means for businesses to assist in the implementation of the SDGs. The UN Global Compact was launched in 2000 and has members from business, labor, and civil society. It is guided by ten principles for a better world. After the success around the millennium development goals, the Global Compact is committed to helping the UN achieve the SDGs.[44] Their program, which is in its initial stages, is called “Mobilizing Business Action on the Sustainable Development Goals.”[45]

So far I have argued that Kantian moral philosophy provides one of the most common moral foundations for human rights. As a result, multinational corporations are morally required not to violate human rights, to hold their suppliers in conformity with human rights, and to protect human rights in their operations. In addition, multinational corporations have a duty of beneficence. A natural way for multinationals to honor this imperfect duty is to assist the UN and those organizations cooperating with the UN in the achievement of the SDGs. When multinationals act as Kantian companies, the benefits include contributing to the end of poverty and all its accompanying ills, as well as promoting democracy and world peace. Meanwhile, international business is promoting universal moral norms, including norms against bribery and discrimination and a norm for greater honesty and transparency in business. And while doing all this, these Kantian multinationals will be profitable.

Objections and Replies

Despite these arguments, many intellectuals see capitalism as destructive rather than civilizing. For more than a generation, several groups of intellectuals such as feminists, pragmatists, particularists, and communitarians have criticized the cosmopolitan "we are all one human family" perspective of Kant. These critics argue that rather than celebrate our common humanity, our differences should be the cause of celebration.

Let us begin by considering the criticism made against the Enlightenment's emphasis on humankind in general. Particularist opponents of Kant argue that we should celebrate ethnicity and other forms of diversity, and they criticize Enlightenment thinkers, especially Kant, who ignore individuality and individual differences.

Many of these critics argue that capitalism makes things worse rather than better because it imposes a uniformity of wants around the world. These critics would quote with disapproval a remark by an earlier H. J. Heinz CEO Anthony Reilly who said, "Once television is there, people of whatever shade, culture, or origin want the same things."[46] Sometimes this criticism is captured by the term "McDonaldization of the planet" or simply "McWorld." Many critics of international capitalism decry the uniformity that is found everywhere. In addition to this aesthetic critique, the critics often raise an issue of justice as well. They argue that the speed of modernization exemplified by international capitalism threatens to destroy the culture of indigenous people around the globe. The critics object to the imposition of a market economy on traditional cultures in the name of development.

There is much to say in response to these criticisms. Some response to the particularist critics has already been made in Chapter 1. Of central concern here is the charge that you best respect people when you focus on their uniqueness rather than their commonality – a charge leveled by feminists and others who claim that Kantian philosophy, despite its claims to universality, is in fact too Western and too male. I still vividly remember how my first presentation of an early version of Kantian capitalism at a November 1994 Ruffin lecture at the University of Virginia's Darden School stirred an intense debate about this very issue. At that time, amid boos and cheers, I maintained that a focus on difference or otherness divides people and contributes to discord, hatred, and even war. One can even structure this debate in empirical or semi-empirical terms. Setting up a controlled experiment is impossible, but look at those places in the world where there is relative peace and stability compared to those places where there is conflict, war, and even genocide. I submit that the more tribal societies that emphasize differences in religion and ethnicity are statistically much more likely to be societies in great conflict. From 9/11 through the rise of ISIS, I think the empirical evidence definitely supports my position.

On the positive side, when people want recognition from others, they emphasize their common humanity with others and not their differences. For example, I noted, as the media covered the Syrian refuge problem, a refuge responding to the opposition to the refuges and to the accompanying fear that was evident in the host societies, saying: "We are human beings." The call was to appreciate their common humanity; it was not to celebrate their otherness. The road to peace is to see how those who are different from us are like us – a message common to both Kantian Enlightenment philosophy and to international capitalism.

I would say that once we recognize the common humanity in people, we then can appreciate different cultures and traditions. The societies that are most embedded in the Enlightenment tradition are the most tolerant and most diversified (although their record is hardly perfect). Tribal societies are less likely to recognize a common humanity and often discriminate or persecute people who are unlike or different from the majority population. This problem is especially serious in the Middle East and Africa, and in some cases the problem is severe. The destruction of cultural artifacts as well as the beheadings conducted by ISIS is the most extreme example.

What about the claim that, despite his universal pretentions, Kant is too Western? His is not a truly universal moral philosophy. The first point to be made is that Kantians are not claiming that Kantianism is in fact accepted across all cultures. Rather, Kantians would claim that Kantian moral philosophy could be and should be accepted by all rational people regardless of culture. That is the crucial philosophical point.

However, Kantian moral philosophy does in fact have an appeal that is cross-cultural. First, some anecdotal information. My experience teaching in classes where up to 40 percent of the students were non-Western is that Kant is not seen as parochial by non-Westerners. Asian students, who by knowledge or culture are Hindus or Buddhists, find many similarities between Kantian ethics and Hindu or Buddhist ethics. I am not an expert in Asian philosophy and religion, but my experience is that the Kantian narrative finds receptive ears in Asia. And although I have had fewer students from South America or Africa, I have never been challenged by any of those students who think that

Kant is too Western. Ironically, I have only heard that criticism from Westerners. I invite fellow teachers to reflect on their own experience to see if it is similar or different from mine.

Even in the first edition, the "too Western" critique struck me as the position that was parochial. The universalist outlook was never the exclusive province of white Western males. At that time, Kwame Anthony Appiah spoke for many.

> We will only solve our problems if we see them as human problems arising out of a special situation, and we shall not solve them if we see them as African problems, generated by our being somehow unlike others.[47]

Moreover, some intellectuals from a multitude of disciplines have developed universalist approaches that are truly international. Toward the end of the last century, Amartya Sen and Martha Nussbaum had developed a theory of central human capabilities meant to apply across cultures.[48] Cultures and institutions that contribute to the development and flourishing of those capabilities are good; cultures and institutions that do not are bad. In 1998, Sen won the Nobel Prize in Economics for his work in developmental economics that was constructed around this approach. Sen and Nussbaum's work on human capabilities continues to be influential. Onora O'Neill has shown how Kantian ethics is compatible with the Sen/Nussbaum approach. One can further test the list of human capabilities against the categorical imperative. If one cannot will the development of the capability in everyone, that capability cannot be defended on moral grounds. On the other hand, capabilities that one can will everyone to develop are morally permissible. O'Neill puts it this way:

> When we then ask which capabilities could in principle be secured for all, we discover that some capabilities cannot be achieved for all. These are capabilities that need and create victims; they are unjust capabilities. Other capabilities can be enjoyed by all, and when they are, will reduce vulnerability.... The capabilities which can be secured are capabilities that will reduce and tend to eliminate the possibility of violence, coercion, deception, depression, and the like, since these latter capabilities embody principles that *could not* be followed by all. For example, the injustice of a "head" of family's capability to prevent his dependents from undertaking activity outside the home, is evident from the fact that this capability cannot be extended to all.[49]

The point here is that persons following a capabilities approach or a Kantian approach have criteria for judging cultural practices, and these criteria are not cultural, but rather based on facts, biological and psychological, about human nature itself. There is nothing distinctively Western in that.

I now turn to the challenge to economic internationalism. One aspect of that challenge that received emphasis in the first edition is the charge that such economic internationalism undermines indigenous cultures. That issue has receded in importance during the twenty-first century, in part because of the recognition that in today's world, indigenous cultures cannot be isolated, and there is no practical way to avoid having an impact on them.

Of course, the fact of impracticality does not eliminate the moral issue as to whether if and/or to what extent indigenous culture should be protected and maintained. If we take the capability literature seriously, those features of modern life that increase the capability of indigenous people are not only morally permitted but arguably morally required. Surely educating women and vaccinating children against polio are things that ought to be done.

The real issue about international capitalism is whether or not it leads to a uniformity across cultures and whether that uniformity is an undesirable one. It is these concerns that raise issues about a McWorld. What do fast foods do to the culinary traditions of France, to the siesta in Madrid, or to other culturally distinct aspects of food consumption?

The first point to make here is to warn the critics not to fall into a kind of paternalistic arrogance here. McDonalds, the other fast food chains, and the big box stores like Home Depot are successful because there is a large number of people who want to purchase the goods and services they provide. If the critics do not want to patronize these businesses, they have every right not to do so. The critics also have the right to try to get people to change their buying habits. If the critics want to go further, they are morally permitted to use the democratic process to regulate or effect zoning laws. What the critics are morally prohibited from doing is to impose their views on the majority.

Zoning laws prohibit certain activities in various parts of a political district. In most communities you cannot build a cement plant in the middle of a residential neighborhood. Also, certain types of manufacturing might be prohibited altogether. The town of Hurley, New York, has a two-page list of prohibited activities that include boiler shops, breweries, the manufacture of explosives, fish smoking, linoleum manufacturing, salt works, soap manufacturing, stockyards, and yeast manufacture. Some items on the list are not surprising, but some are. However, these prohibitions were enacted by publicly elected officials who are accountable to the electorate. The regulation of international business through the democratic process is legitimate. However, the critics must realize that if a vote were taken in Japan on the question of whether or not to allow fast food chains, the Japanese would vote overwhelmingly to allow them – at least if the ubiquitous presence of fast food chains in Japan's cities is any indication of how such a vote would go. And I think the vote would go the same way in China and in most of the other countries of the world.

One response that the critics might make is that the "choices" that people make in the marketplace are not really free. In many parts of major cities in America, there are no large full-service grocery stores. Fast food is the cheaper alternative to the small corner store with limited selection and high prices. In addition, wage stagnation across the industrial world requires consumers to emphasize price, which is why Wal-Mart, with its "Low Prices Always," is so popular. The big box stores get the vast amount of customers because that is what the lower- and middle-class consumers can afford. It is not necessarily what they would choose, or so the argument goes.

This rejoinder by the critics is not totally without merit. The current economic situation in most capitalist countries makes price the most important variable in consumer choice. Perhaps consumers would choose differently if they were wealthier. As I have argued in Chapter 2, Kantian capitalism would not allow the kind of income inequality we find in the United States and certain other capitalist countries. In addition, Kantian capitalism would promote a minimum wage that would provide a decent standard of living. If these conditions were met and people still made the choices they make now, the critics would have less of a case.

In addition, the critics who argue that international capitalism promotes a dull low-level uniformity vastly oversimplify the facts of the situation. Taking the United States as an example, there is far less uniformity in terms of purchasing choice than there was twenty or fifty years ago. When I was growing up in the 1950s and 1960s, McDonalds was not available. But neither were ethnic restaurants – no Mexican, no Chinese, or anything else. Nowadays every town has an array of ethnic restaurants, and in medium-sized and large cities these ethnic restaurants are authentic. In addition, the growth of international capitalism has spurred immigration. As a result, the opportunities to experience other cultural traditions through such things as cultural festivals have increased markedly. Today Americans can visit a mosque or a Buddhist temple. The claim that international capitalism has led to a dull low-level uniformity does not reflect the world as we experience it.

Basically what I am arguing here is that ethnic culture will thrive in a cosmopolitan world, because human beings who see themselves as world citizens will find it easier to appreciate and tolerate the differences in cultures dissimilar to their own. In a truly international marketplace, nationalism is expressed aesthetically in Greek food, Greek art, Greek folk dances, and of course ancient Greek architecture and philosophy. When nationalism expresses itself politically, it is divisive and can lead to conflict. When nationalism expresses itself economically and culturally, it is easy for other nationalities to both tolerate and even appreciate and enjoy the nationalistic expression of others. It is no accident that international tourism has soared along with international business. Empirically it seems easy to make the case that in most parts of the world there is a greater interest in other cultures and more tolerance than there was before the rise of international capitalism.

Thus, one can both celebrate one's own national heritage, be proud of it, and share it with others. Simultaneously, one can appreciate and enjoy the cultural heritage of others. American cities and towns have festivals that celebrate an Italian heritage, which attract many who are not Italian; that celebrate German heritage during Octoberfest and are attended by many who are not German; and of course, St. Patrick's day no longer belong only to the Irish.

I now turn to an exception to this tale of international capitalism and tolerance.

One of the most optimistic assumptions of the Enlightenment was the belief that international commerce would bring about a more peaceful world. I embraced that view in the first edition. In Chapter 5 of that edition I cited a 1991 *Fortune* article that proposed a Mideast Common Market as well as the example of an Israeli, Staff Wertheimer, who employed Arabs in his company for more than thirty years and said, "In our plants and offices, Arabs and Jews work side by side to make products instead of mischief."

A background assumption of my optimism was the belief that a more secular, prosperous, and democratic society that international capitalism promoted would easily trump religious fundamentalism and nationalist fervor. Two years after the first edition was published, 9/11 upended that assumption. All of a sudden Fukuyama's book *The End of History and the Last Man* seemed dated rather than cutting edge. And the optimism of the 1990s has not returned sixteen years later. Indeed, religious fanaticism and the resulting violence and intolerance that accompany it have plagued the entire Middle East and created a number of failed states. Terrorism has tragically become a mark of life in the Western world. Does this mean that the claim that Kantian capitalism will promote world peace has been falsified and at best can be seen as a naïve hope? Not quite.

First arguments for the connection between capitalism and the promotion of world peace are still made. Despite the dire situation in the Middle East, a recent *New York Times* article has been published under the title: "Profit as an Incentive for Israeli-Palestinian Peace." The article reports on a RAND study that argues that if the "two-state solution" were negotiated and implemented, there would be a net gain to the Israelis and Palestinians of $183 billion. That would work out to a per capita income increase of $1,000 for each Palestinian in the West Bank and Gaza Strip and $2,300 for each Israeli. Percentage-wise, that would be an increase of 36 percent for each Palestinian and 5 percent for each Israeli.[50] It is hard to believe that the huge cost of war, particularly its adverse effects on the Palestinians, will not contribute to peace. We shall see.

The empirical question here is whether economic self-interest in a global economy can trump religious fanaticism. That question is hard to answer. The easy answer is that the values of cosmopolitanism and tolerance ought to trump religious fanaticism. The overwhelming majority of people throughout the world find beheadings, suicide bombings, terrorist attacks on civilians, and the attempt to obliterate a culture as the most serious moral wrongs. So in most respects the moral case is easy.

But taking the steps to eliminate these moral wrongs is hard. Many argue that the high rates of youth unemployment in Muslim countries, the emphasis on religious education at the expense of practical skills, and social media are behind the sectarian conflict that exists in the world today. All of these cited causes are relevant. As a practical matter, I do not know how to bring this sectarian conflict to and end. And it is important to point out that this is not simply a clash of civilizations, of the West against the Muslim world. Some of the most vicious conflicts are within the Muslim world, between Sunnis and Shiites, for example. Morally, a Kantian should cooperate with those institutions and international agencies working for toleration and peace. Regrettably there may be an obligation to go to war with the likes of ISIS and Al Queda who murder civilians, commit acts of terror, and destroy cultural artifacts in order to erase the culture of another. I believe the late Kantian John Rawls would agree. To me his last work, *The Law of Peoples*, is pretty clear about that.

So what seemed like a fact in the first edition is now a hope. International capitalism can contribute to global tolerance and peace. The underlying philosophy of an international Kantian capitalism has the values that support toleration and peace. Moreover, international capitalism has an obligation to contribute to these ideals through the respect for and support of human rights. Moreover, there is profit to be made in supporting such things as the UN Sustainable Development Goals. The obligations that fall on Kantian multinationals are fairly clear. We all need to hope that those values will prevail.

Conclusion

In this final chapter I have argued for a Kantian international capitalism, namely that capitalism would contain a morality of the marketplace – a universal morality that makes markets possible. I have argued on Kantian grounds that no capitalist firm or country should practice bribery or discrimination, and positively that businesspeople in international business should overcome their suspicions of other countries and cultures and seek to develop the trust necessary for international business to exist. I have also argued that these universal values of a Kantian international market can be formulated as empirical hypotheses about what will come to pass. Where possible, I have provided evidence for these hypotheses.

I have also considered a possible relationship among the development of international capitalism, the development of democratic institutions, and the achievement of world peace. There are good theoretical arguments for this relationship, but the existence of nationalism and religious fanaticism certainly provides obstacles to the evolution of a Kantian capitalist, democratic, peaceful world. Any good cosmopolitan Enlightenment philosopher must hope that these obstacles will be overcome.

More generally, my intent in this second edition was to provide a description of thoroughgoing Kantian capitalism that, if completely adopted, is morally defensible. It does seem, after all, that if the adoption of Kantian capitalism could provide a universal morality for the market and meaningful work for employees, institute firms as moral communities, and help establish a more cosmopolitan and peaceful world, Kantian capitalism will have done most everything a theory of business ethics could do.

Notes

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2 T. Nardin, *Law, Morality and the Relations of States* (Princeton, NJ: Princeton University Press, 1983), 309.
3 C. R. Beitz, *Political Theory and International Relations*, 144.
4 T. Donaldson and T. W. Dunfee, *Ties That Bind* (Cambridge, MA: Harvard Business School Press 1999), 38–41.
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8 N. E. Bowie and P. Vaaler, "Some Arguments for Universal Moral Standards" in *International Business Ethics: Challenges and Approaches*, G. Enderle, ed. (South Bend, IN: University of Notre Dame Press, 1999), 160–73.
9 P. Vaaler and N. E. Bowie, "Transaction Cost Economics, Knowledge Transfer and Universal Business Norms in Multinational Enterprises," *International Journal of Strategic Change Management*, 2 (2010): 269–97.
10 This information was obtained from the OECD at www.oecd.org/cleangovbiz/49693613.pdf (accessed February 10, 2016). There is an extensive literature on the cost of bribery and corruption at the macro or country-wide level.
11 M. Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), 109–10.
12 "Holding Back Half the Nation," *The Economist*, March 29, 2014.
13 This is the thesis of F. Fukuyama's book *Trust* (New York: Free Press, 1995).

14 P. Guyer, *Kant* (New York: Routledge, 2006), 295.
15 J. Rawls, *The Law of Peoples* (Cambridge, MA: Harvard University Press, 1999). Rawls distinguishes between outlaw states and burdened societies. The justification for war against the latter is much weaker than the case for war against the former. See part III of the book cited here.
16 A. O. Hirschman, "Rival Interpretations of Market Society: Civilizing, Destructive, or Feeble," *Journal of Economic Literature*, 20 (1992): 463–84.
17 Fukuyama, *Trust*, 356.
18 For a comprehensive overview that supports the general argument here, see the Freedom House Report 2015, "Discarding Democracy: A Return to the Iron Fist."
19 As I learned while visiting Chinese business ethics scholars, the Chinese will not use the word "capitalism" to describe their economy. Rather, the correct term is "market economy."
20 M. Friedman, *Capitalism and Freedom*, 8.
21 Of course, the Internet has opened new possibilities for the expression of opinion. China, among others, exercises control over the Internet by censoring what can be said over the networks. However, whether that censorship can ultimately be successful in a capitalist economy remains to be seen.
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Index