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INTEGRITY  
IN BUSINESS  
AND SOCIETY

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# INTRODUCTION

When Niklas Luhmann was once asked to comment on the topic of business ethics, he told his audience that he had been unable to find out what he should talk about.<sup>1</sup> In view of the wide range of the discussions on economic or business ethics, the interested practitioner for whom this book is written is faced by an even greater challenge than Germany's then most famous sociologist.

The issue of "ethical responsibility in business actions" can be considered from a wide variety of perspectives and hence treated in many different ways. According to the worldview and the moral-philosophical school of thought one follows, one arrives at different evaluations of "good" actions. This book elucidates the way the practical implementation of ethics in companies is essentially dependent on the virtue ethics lived by the decision makers in business, whereby a supporting regulatory framework (economic ethics) and the self-commitment of the company (corporate ethics) ensures that the "good" actors are not the "dupes" of the system. Both in the shaping of the political framework conditions and the formulation of self-commitment individual responsibility ethics again play the central role.

Criminal behaviour of the kind that came to light

*1* Luhmann, N. (1993): 134.

in the context of the emissions scandal in the German car trade destroys trust. I am convinced, however, that criminal behaviour is the exception in an otherwise intact regulation of business actions. It is primarily the predominantly disappointed expectations in the social and particularly environmental fields that triggers off the diffuse discontent of people towards the (big!) companies. Legally achieved profits are a necessary but not a sufficient condition for social acceptance.

All of this is not particularly new. So why publish a book on ethically reflected responsibility in business affairs? If you Google “business ethics” you find over 36 million entries within a few seconds; if you enter “social responsibility of companies” you come up with 1.870,000 hits and the concept “corporate responsibility” is recorded 18.600,000 times. We can, moreover, also find innumerable books and scientific articles on the topic. Has, then, everything already been said? That depends on the perspective one adopts. On the one hand anyone who is seriously interested in finding out the state of knowledge on striving for profit while observing ethical norms will come across a wealth of sources. On the other hand, a large proportion of the analyses and recommendations derive from people who have no practical experience of everyday business life. They are also often written in a language that is difficult to understand. In addition, much of the discourse takes its bearings on the feasibility of ethically responsible action in internationally operating companies with their administrative capacities, and the recommendations made

would place too severe a demand on small and medium-sized enterprises.

Finally, the moral-philosophical debates are often accompanied by a moralizing undertone suggesting that profit-oriented action is per se suspicious. Isolated cases of irresponsible or criminal activities are treated as representative of moral deficits that are supposedly widespread in the business world., and conclusions are drawn in favor of “more state interference” The existence of people who regard immoral behaviour for the purposes of self-enrichment as acceptable, when gaps in the law render it possible, is clearly demonstrated by the so-called “Cum-Ex-Deals”. Anyone with an IQ of over 90 knows, however, that it cannot be right to receive refunds two or three times over for taxes one has only paid once. Such supposedly clever deals damage the reputation of entire branches of industry and are by no means representative of the social sub-system of the economy.

Although scandals like Wirecard, those in the meat processing industry or the automobile industry in Germany give rise to the impression that the ethical quality of business actions is getting worse and worse, the fact is that it has improved in the last 25 years. Although steady, the improvement has only been gradual, and against this background extreme deviations from the path of virtue are all the more striking and memorable. Many arguments presented by Hans Rosling in his ex-

cellent book *Factfulness*<sup>2</sup> in regard to overly pessimistic evaluations of the state of the world also apply to the judgment of the ethical quality of business actions. For example:

*The negativity instinct.* Yes, we are confronted with negative news again and again. But we should realize that we are much more likely to receive information on tragic or negative events. The media are not interested in reporting on (boring) gradual improvements in average ethical performance, because the majority of the media consumers also have little interest in such news. Good news is no news. Unexpected isolated scandals, however, are highly newsworthy and attract great attention. As a result, we systematically imbibe an exaggeratedly negative impression of the world around us. However, the predominance of the scandal reports presented in the struggle for higher sales of books and higher TV ratings does not indicate an increasing number of misdemeanors. But the increase in reports on problems does influence peoples' perception of the world.

*The fear instinct.* Much of what we hear about scandals in business enterprises attracts our attention – or that of the media – because it induces fear. As the sheer size of sales or profits in companies is perceived as a potential threat, our brains register this fear-laden information particularly intensively.

*The generalization instinct.* Categories (such as for

<sup>2</sup> Rosling, H. 2018

example the company) can easily lead us astray. There are significant differences within the group of “companies”. Responsible judgment calls for the art of differentiation. Unusually graphic examples are striking and embed themselves better in our memories. But it is easy to forget that they are the exception and not the rule.

*The blame instinct.* After a deviation from the path of virtue has been made public individual scapegoats are often sought, found and pilloried. This may be entertaining and satisfy some people’s craving for sensations, but it is not helpful in finding solutions to problems and preventing their reoccurrence in the future. It is much more important to look for causes (driving forces) than to attribute individual blame. Blaming leads us to stop thinking or searching for possible explanations.

When mistakes are made that do not involve criminal behaviour it would be wrong to attribute bad intentions and moral depravity to the actors. It is better to search for causes and not for evil-doers. People stop reflecting on an issue as soon as the evildoer has been identified. Complex problems arise, however, through interactions between various elements within and outside the economic sub-system. Bad things can happen without anybody having intended them. They are almost always the result of interacting causes within the system, so it is more important to find these causes than to isolate the evildoers.

A clear example of the disparity between legality and legitimacy is provided by the inhumane working

conditions for the workers in German meat-processing companies that have been long known, but first caused a public scandal in the spring of 2020 as a result of the Covid 19 pandemic. Workers from Romania, Bulgaria or Poland are not employed on a regular basis but only have limited contracts for specific purposes. They are employed by sub-contractors and live under crowded conditions in mass accommodation. That animal welfare also falls by the wayside in factories in that a pig is slaughtered every 30 seconds is a further factor involved in the evaluation of the ethical quality of business actions in this sphere.

No serious observer would sweepingly attribute the existence of such scandalous conditions to profit-orientation alone, but such examples of blatant deviation from the path of decency are repeatedly used as a peg on that to hang ethical analyses. According to Article Five of the German Basic Law everyone is entitled to freely express and disseminate his opinions in speech, writings and pictures, and even ideologically biased teaching contents are covered by the freedom of teaching and research. For the constructive appraisal of ethical deficits, however, generalizations are not helpful, especially when the overall climatic conditions of the world economy are overcast.

The economic and social upheavals facing all of us (trade conflicts, accelerated digitalization in the post-Corona period and difficulties in the implementation of the 2033 Agenda for Sustainable Development) are immense. In a climate of mutual blaming and lack of trust it is almost impossible to find solutions based

on consensus. And insistence on one's own point of view is no help at all. In addition, as a result of discussions on economic behaviour predominately distorted by scandals, political risks arise that inhibit rather than promote sustainable development.

Against the background of my practical and academic experience I would like to liberate the discourse on the ethical quality of economic actions from the corral of idealistic theoretical thinking and make our existing knowledge more effective in practice. My aim is to help us to form big coalitions of responsible people in the economy, politics and society in order to meet the challenge of the imminent problems in a socially tolerable way.

It is not the purpose of this book to present academic theories, but to provide the bearers of responsibility with useful hints for dealing with ethical dilemmas in specific contexts. It is guided by pragmatism founded on moral principles in the long-term personal interest of the actors involved, and not by the desire to "canonize" business activities. It is also concerned with the initiation of a new dialogue on what can be expected of companies beyond the observation of the merely legal requirements under the conditions of a fair division of labour.

A new approach is necessary not only because of the disruptive social and economic consequences of the Corona crisis. There is also a growing insight that much of what has been taken for granted up to the most recent

times must be questioned and put to the test.<sup>3</sup>

During the work on this book three events occurred that have reinforced my hope that the topic of ethics has come to be seen as an integral part of business strategy and practice:

- The US-American Business Roundtable, a confederation of leading business companies, distanced itself from the principle of profit maximization and called for a greater consideration of the interests of shareholders<sup>4</sup>
- Klaus Schwab, the founder and president of the World Economic Forum, presented an updated Davos Manifesto to the public in that he firmly advocated a reform of contemporary capitalism in the direction of stakeholder capitalism.<sup>5</sup>
- Larry Fink, the chairman of the biggest investment management corporation in the world, BlackRock, has called yet again for a fundamental transformation of the financial world and a consideration of the needs of all stakeholders<sup>6</sup>.

What is demanded by these three members of big companies is also of importance for small and medium-sized firms and their leadership personalities. In their case too every individual, and specifically those

3 Reckwitz, A. (2019)

4 Business Roundtable (2019)

5 Schwab, K. (2020a).

6 Fink, L. (2020).

whose decisions affect the lives of others, have room for maneuver that can be filled with ethical musicality and moral imagination in the interest of social harmony and a sustainable future. In this regard we can all take on the responsibility of leaders in our own sphere of influence.

Where there's a will there's a way.

## Chapter 1

# TRUST

### 1.1.

#### PRECONDITIONS FOR ECONOMIC SUCCESS AND SOCIAL PEACE

Trust is the subjective belief of an individual in the integrity, goodwill and competence of another person. It arises when a community shares a series of moral values that provide a basis for proper and calculable behaviour. The specific values at issue are not so important; what matters primarily is that they are shared by all members of the community.<sup>7</sup>

Lack of trust in politics and the economy is always a cause for regret. But in the times of Corona, increasing digitalization and new structural unemployment it is particularly disadvantageous when innovative forms of cooperation and the testing of new models of action are particularly important if we are to overcome newly arising problems. When it is not possible to take recourse to past experience the best will in the world will not prevent us from making mistakes. Without a robust fundamental trust in the integrity of all stakeholders

<sup>7</sup> Fukuyama F. (1995): 153,

mistakes lead to mutual recriminations and suspicions instead of attempts to find new solutions on the basis of shared experiences.

In business dealings trust is of fundamental importance. A shared understanding of “decent” behaviour (shared values) does away with complicated contracts and exclusive dependence on anonymous bureaucratic legal procedures. Whenever people are unsure about the correct action to take because they lack the necessary expert knowledge and experience, trust serves to reduce complexity. It is not necessary to know and understand every detail of a decision; one can rely on the sense of responsibility of the actors involved in the dealings. In a world increasingly characterized by volatility, uncertainty, complexity and ambiguity (VUCA<sup>8</sup>) robust trust in people and institutions is a precondition for economic success and ultimately also for social peace. In the final analysis innovation is no longer possible in the absence of a broadly and solidly based fundamental trust.

Sustainable development becomes more difficult to achieve, if at all, without technical (and social) innovations. As the development of complex technologies requires substantial financial resources, readiness to take risks and a high level of organization, it often takes place nowadays in business enterprises. But if the size

*8 VUCA was developed during the work of the US Army War College on a new concept of warfare for the description of the changed environment. In contrast to earlier times, this was characterized by volatility, uncertainty, complexity and ambiguity. Later the concept was used by companies, whose environment was increasingly characterized by such factors.*

of a company is seen as an indication of “power” and the complexity of the technical development places too great a demand on the knowledge of laymen, thus giving rise to fear, trust cannot be created. Products developed under these conditions fail to find social acceptance. This prevents the realization of the existing potential for innovation.

When trust diminishes money is lost<sup>9</sup>, and the number of options for action sinks.<sup>10</sup> Deficits in trust are like sand in the gears of the economy and society. Morally upright action and behaviour founded upon value convictions are a decisive building block for the frictionless functioning of society and the economy.

*„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 that we could be taken advantage of. Contracts would be endlessly long and detailed, spelling out every possible contingency and defining every conceivable obligation. We would never offer to do more than we were legally obligated to do in a joint venture for fear of being exploited...”<sup>11</sup>*

Loss of trust is, however, an empirically measurable fact throughout the world. – we are living in skeptical times

9 Accenture (2018)

10 Fukuyama (1995), Part 3.n

11 Fukuyama (1995): 152

## **Diffuse discomfort at a high level of prosperity**

Most people in Central Europe are living at a level of prosperity hitherto unreached in history. They live longer in a better state of health; they have greater opportunities for personal and educational development. Company successes achieved in an honest way within the framework of the social market economy have made a substantial contribution to this state of affairs. Prosperous social development and successful coexistence would be impossible without responsible value creation. This point is of great social-ethical significance.

In spite of the success story of the social market economy and the immense contribution of business enterprises to human welfare, voices can still be heard today that ought only to be found in an archive for the history of great errors.

→ Sixty years after the passing of the Bad Godesberg Program the chief whip of the Social Democratic Party used language that one was accustomed to hear from the mouths of communist functionaries of the defunct German Democratic Republic: He referred to the payment of dividends by companies that had applied for short-time working allowances in April 2020 on account of the Corona crisis as e referred to the payment of dividends by “the hideous face of capitalism”<sup>12</sup> although the measure was designed to

avoid a wave of dismissals of the kind experienced by the American labour force at this time. The fact that dividends are a desirable part of provision for old age and that insurance companies depend on the returns from invested capital in order to meet their commitments is simply ignored and replaced by the caricature of the “greedy Rentier”.

- In the autumn of 2019 calls for expropriation were discussed as if they were a part of a fully legitimate toolbox of morally upright politics<sup>13</sup>, less than 30 years after the deplorable economic, ecological, social and human-rights performance of countries whose chief functionaries maintained that they were practicing “real socialism” became known to the world.
- The Edelman Trust Barometer of 2020 points out that 56% of the people questioned in 27 different countries were of the opinion that capitalism does more harm than good.<sup>14</sup> A majority of young people in the USA (millennials) rejects capitalism; 36% even believe that communism is a better alternative.<sup>15</sup> Socialist concepts are again enjoying attention<sup>16</sup> and publications highly critical of capitalism are finding great favor among readers in the German-speaking world.<sup>17</sup>

13 *rbb24* (2019).

14 *Edelman Trust Barometer 2020, Slide 12*

15 *Langlois, S. (2019).*

16 *Edelman Trust Barometer 2020; Fuster, Th. (2019); Hartig, R./Pew Research Center (2019); Harris Poll/ Axios (2019).*

17 *Ziegler, J. (2019).*

- Even before the Corona crisis began people were growing afraid almost everywhere that they might lose their jobs and the accompanying respect and dignity on account of capitalism.<sup>18</sup> When asked that institutions they trusted to do “the right thing” only 25% of those questioned in 27 industrialized and threshold countries gave “business” as their answer.<sup>19</sup> Non-government organizations fared little better; governments and the media came off worse (47%).
- Only 51% of those questioned worldwide believed that economic leaders could deal with the existing challenges. Politicians, i.e. those who were expected to regulate and “tame” the supposedly “predatory capitalism”, were even worse again (42%).<sup>20</sup>
- None of the social institutions – government, business enterprises, NGOs or the media – are today considered competent and ethically acceptable. In regard to competence (“good at what it does”) companies do best; NGOs do best in regard to ethical conduct (purpose driven, honest, fair, have vision). However, as ethical conduct is felt to be three times as important as competence in the attribution of trust NGOs that are critical of capitalism have an advantage in the competition for credibility.<sup>21</sup>

Although lack of trust in the economy and the po-

18 Edelman Trust Barometer 2020: Slide 11.

19 Edelman Trust Barometer (2020): Slide 9

20 Edelman Trust Barometer (2020): Slide 17

21 Edelman Trust Barometer (2020): Slide 20ff.

litical sphere is by no means restricted to Germany, people in Germany nevertheless have even less trust than elsewhere in the economy (47%) and the government (40%), but also in NGOs and the media (both 44%).<sup>22</sup> Professional groups such as firemen (94%), medical staff (88%) or the police (84%) enjoy a high degree of respect, whereas managers (19%) and politicians (16%) are in very low positions on the scale of moral esteem.<sup>23</sup>

The fact that massive wangling and graft also occur in situations where state authorities call the tune<sup>24</sup>, that the existence of corruption in important infrastructure projects can be proved<sup>25</sup>, and that the tax-payers' money is often squandered in a way that would be punished as a breach of trust in the business world<sup>26</sup>, does not seem to stem the wishful thinking that greater state influence would improve the ethical quality of economic activities.

It is interesting to note that the judgment of people who possess more knowledge and have access to "insider" information differs distinctly from the judgment of people who have to rely on vague assumptions. The differentiation between the answers of "the general public" and the "informed public" provided by the Edelman Trust Barometer 2020 shows that better educated people, people who inform themselves regularly in the

22 *Edelman Trust Barometer (2020): Slide 9.*

23 *Creutzburg, D. (2019).*

24 *SPIEGEL Wirtschaft (2019)*

25 *For example, in the construction of the new Berlin Airport BER. On this point see Brzozowski et al. (2017)*

26 *Bund der Steuerzahler Deutschland e.V. (2020).*

media about political issues and new developments in the business world generally have more trust in companies (70%), governments (59%) and the media (58%). NGOs also achieve better results among the informed public (61%). The consequences that should be drawn from this for the communications policy of all social institutions are all too evident

I see the main reasons for this precarious lack of trust not so much in scandalous criminal activities as in unfulfilled expectations in regard to business enterprises and their leading executives. For this reason I will deal later with the structure of the social division of labour. There can be no doubt that questions of political regulation are involved that can well be answered in a variety of ways.

One such question is, for example, whether hospitals, health insurance companies or the providers of infrastructures such as Telecom must generate profits for their shareholders. Is it not the primary task of hospitals to ensure the best possible treatment of the patients in accordance with the advice given by medical staff? Was it not the founding idea of health insurance companies to pool the risks arising across the generations and to ensure that the costs of the necessary treatment can be covered? Does not the pressure to generate profits automatically lead to economizing decisions at the expense of patients who are not in a position to take out supplementary private insurance? Should not the provision of infrastructure facilities such as high-speed Internet for all the citizens of a country lie in the hands of the *service*

*publique* rather than being left to institutions that need to be successful in the money market? Is it irrelevant for social peace when the discrepancies in income and wealth grow greater from year to year?

Legitimate questions can also be put from an ecological perspective. Is it not the case that companies (and private consumers) are still able today to “externalize” costs, because the prices do not reflect the true ecological (and social) situation and hence are not included in the operational cost accounting? Is it not also true to say that as a result essential social costs, for example the consequences of climatic change, are not taken into account? Does not the implementation of the *2030 Agenda for Sustainable Development* also require a willingness to rethink the supposedly “inherent necessities” established in the capital market during the last 50 years and to reassess their adequacy in the light of new developments? Joseph Stiglitz’s demand for a new form of capitalism in the USA, one that is better adapted to meet the requirements of the changed circumstances, is at all events a clarion call in this direction.<sup>27</sup>

It is a debatable point whether the unfavorable perception of business morals can be explained as a new version of the Tocqueville Paradox<sup>28</sup> or as a result of media marketing that predominantly sees bad news as

27 Stiglitz, J.E., T.N. Zucker and G. Zucman (2020).

28 Alexis de Tocqueville saw indications that social progress that led objectively to a reduction of social inequality paradoxically also led to a growing and more refined level of aspiration, as the remaining inequalities were recognized as being “man-made” and so gave rise to indignation. See Tocqueville, A. de: (2018/1856)

more worthy of reporting – that, incidentally, demonstrates that scandals are a deviation from the normal, otherwise they would not be scandals. The fact remains, however, that social trust in the market economy can no longer be taken for granted in spite of all its successes. The danger that this could lead to a diminution of the acceptance of the open, liberal society is obvious.

### **Criminal actions destroy the preconditions for trust building**

I am one of those people today for whom it was inconceivable that a car company could break the law to the enormous extent now known to us. I would also have felt that it was impossible for banks to mix worthless securities with papers of better quality and to foist them on to guileless clients as papers of high financial standing, not to speak of the manipulation of the Libor bank rate. On account of their dimensions and their persistency the fraudulent practices in the German car industry were unusually brazen<sup>29</sup> and had a particularly

*29 All three big German car companies prided themselves on an ethics code that listed the self-imposed obligations, but was openly and deliberately trampled underfoot. The Code of Conduct of Volkswagen, for example, contains formulations like: "When we notice that something has gone wrong, when we make mistakes or recognize mistakes, we must address them and react adequately, even if this is uncomfortable for us. Looking the other way is not the right approach." Or: "The success of our company depends decisively on all of us, executive board, leading managers and every individual worker, behaving honestly, decently and in an ethically correct manner. This also means that both internally and externally we must report and communicate in a truthful, comprehensive and timely fashion." And finally: "It is not only*

strong impact on public opinion. The known cases of the planned obsolescence of older smartphones as a means of promoting the sales of new models are no less deplorable.

Violations of human rights, child labour and the destruction of the environment in the extractive sector, the unscrupulous exploitation of workers in the textile trade, the falsification of life-saving medical products and other forms of criminal activity do particular damage to the trustworthiness of business enterprises. The report of the Institut der Deutschen Wirtschaft [Institute for the German Economy] of 2019 sees a loss of sales of up to 18% as a consequence of corruption, cartels and black labour, and fears long-term damage to the fundamental trust of citizens in the independence of the state and the integrity of the economy.<sup>30</sup>

Such grievous cases are in a different category than fraudulent expenses claims, company internal theft or embezzlement, but these also cause great damage. The auditing company KPMG publishes a study every year on economic crime in Germany. The report of 2018 summarizes the situation as follows:

*In the last two years every third company in Germany*

*a legal obligation but also our own aspiration to observe the legal and official requirements for our products and to meet our own internal standards. Our products correspond technically to the state of the art and have been developed in accordance with the legal provisions. All of this is continuously and systematically guaranteed through procedures and structures and by the observation of the vehicles in the field. Here we make no compromises.”*

*30 Institut der Deutschen Wirtschaft (2019).*

*(32%) was a victim of economic crime, whereby the extent to that the companies were affected stood in relation to the size of the company. The fear of cases of economic crime is even many times higher. Four out of five companies (81%) generally saw a high to a very high risk of economic crime. The most frequent offenses were fraud and breach of trust (58%), a clear increase of 13% since the last questionnaire undertaken in 2016. Here too big companies are particularly seriously affected (73%). Theft and embezzlement occur on average in 40% of the companies. Data offenses are also gaining ground. One in three of the companies questioned was affected (31%); two years earlier the figure was one in four (24%).<sup>31</sup>*

Although it is no consolation, such facts do not, in my opinion, amount to the “hideous face of capitalism”. They are evenly distributed over all the fields of regulatory politics. Criminals exist all over the world, in all the social categories created by ideologies and in all social groups. My own personal and professional experience points to a moral “Gauss distribution”. Of course, the black sheep exist, who fail to do justice to their responsibilities. By no means all of the people who wield power fulfill the accompanying role model function. But bad examples are always only examples; they reflect specific but not representative aspects of reality; they are an exception to the general rule of decent and morally upright conduct.

31 KPMG (2018)

Criminal activities must be met with the full force of the law. The right place for criminals is behind prison bars, regardless of their social status. Increased trust can only be built up when the moral quality of business actions corresponds to the expectations of society – and this excludes in principle criminal dealings and the exploitation of gaps in the law.

**The creation of surplus value must be accompanied by the creation of trust.**

For leadership personalities in the economy and in general for all people who fight for the highest possible ethical quality of business operations, what matters is not the size of the profits achieved in a deal but the way in that it came about. If decisions affecting financial, human, social and natural capital are taken and implemented in an ethically responsible way and innovative products are characterized by their usefulness for the client and their reliability in regard to the quality and adequacy of the cost-benefit ratio, if fairness is practiced internally and externally, mutual respect is fostered and so trust created, success in the market will follow. Under such conditions sustainable profits are not the sole aim but the result of the ethical quality of the overall undertaking. The importance of questions of distribution, the determination of the framework conditions for competition or other aspects of regulatory policy are not reduced as a consequence, as one can only distribute the substance that has already been created. The extent of

the contribution to the welfare of people in society can be particularly felt when exceptional circumstances such as the Corona crisis impede economic action. Unfortunately, in times of crisis there is also a growing danger that ethical issues are subordinated to financial considerations, because “we now have other problems”.

It is only natural that problems affecting everybody trigger off different reactions in different people. Some people are paralyzed by resignation and feelings of desperation, others respond with creativity and impulses to help others in need. Some leading executives in the economic sphere decided in favor of generous solidary measures as a reaction to the Corona crisis<sup>32</sup>. Others wanted to take advantage of a (badly formulated) law designed to help small and medium-sized firms in order to save costs.<sup>33</sup> Some insurance companies left their clients in the lurch by pointing out differentiations concealed in the small print of their policies (for example between epidemics and pandemics),<sup>34</sup> whereas others made claims payments in cases of doubt.<sup>35</sup>

Responsible leadership not only involves success in the product and service markets in accordance with eth-

*32 For example, BASF, that produced 100 million protective masks and a million liters of disinfectants and made them available to society free of charge.*

*33 For example, ADIDAS, that only back-pedaled after massive public protests and continued to pay the rent for its shops. The full-page advertisement in the big newspapers “ADIDAS SAY SORRY” was probably not a clever investment of financial resources, as the damage to the company’s reputation was probably greater than the savings on the payment of rent that would have been realized.*

*34 Marti, S. (2020).*

*35 Hopf-Sult, A. (2020).*

ical standards but also credible participation in public discourse on the contribution of the business world to the general welfare of society. Those who bear responsibility for the integrity of their business dealings must also be in a position to explain in an understandable way what they do and why they do it. This means, in turn, that they must not merely explain the financial specifics of their decisions and actions, but must also be capable of elucidating the *raison d'être*<sup>36</sup> of their company, of justifying its non-negotiable values, of explaining the way the company strives for success on the markets. What many CEOs proudly present to the public – steadily rising profits – is only a part of what is necessary for the achievement of social trust. 87% of those questioned by Edelman are of the opinion that a fair treatment of all stakeholders and not only of shareholders is important for the long-term success of a company<sup>37</sup>

It is a long-known fact that people in modern societies expect legitimate (and not merely legal) business conduct. In the year 2012 a study by Edelman already provided an important STRATEGIC indication of the reasons for the lack of social acceptance of business enterprises. The great majority of people in all the important industrial and threshold countries in the world felt that the top managers of companies paid too little attention to social concerns in comparison to their pursuit of their economic goals.<sup>38</sup> Two thirds of those ques-

36 HHL (2018).

37 Edelman Trust Barometer (2020): Slide 20ff.

38 Edelman Trust Barometer (2012): Slide 18.

tioned expected companies to make a contribution to the solution of social problems. Fair working conditions, further training and other measures for the promotion of employability,<sup>39</sup> cooperation with stakeholders and partnerships with actors outside the economic sub-system are a part of these expectations.

Because the social responsibility of companies is to a high degree a “felt” responsibility, it may often be difficult to quantify. But qualitatively the situation is clear enough. What is at stake is the observation of inter-culturally recognized normative rules such as those distilled over a period of many years by Hans Küng<sup>40</sup> and his colleagues. We are concerned here with ways of thinking and behaving that go far beyond mere legality. What is required is morally inspired action on the basis of a fundamental state of mind that permits all people to the best of their ability to make a contribution within their sphere of influence to a world that is economically, socially, ecologically and in terms of human rights fit for their children and grandchildren to live in. Leadership personalities are in a position to point the way. This is a very different perspective from that of finance analysts, but it is nonetheless an empirically proved fact.

Responsible, morally upright leadership always involves action to the best of one’s knowledge and belief and does not stop at the observation of legal require-

*39 Employability, the life-long ability to be successful on the labour market demands more than mere professional training. Social competence, an entrepreneurial mindset and flexibility are also important.*

*40 Küng, H. (2012).*

ments. People working in companies have earlier, more and better information on the effects of their actions than can be taken into account at a specific point in time by the best legislators. This is particularly the case with companies working in the research field. Actions that are in accordance with the law can nonetheless lead to at least temporary dangers that could be prevented by voluntary action over and beyond the requirements of the law. This can happen, especially, when companies are working in uncharted technological territory or when new methods of measurement or new evaluation criteria come into play that make previously accepted actions irresponsible. The problems associated with the use of asbestos or fluorinated hydrocarbons in the sixties and seventies of the last century are two examples in this regard.

Consequently, responsible leadership personalities do not restrict their obligations to the mere legal requirements. They are in a position to take on further-reaching commitments and see it as their duty to do so. Since Kofi Annan launched the Global Compact his successors as General Secretary of the UNO, Ban Ki-moon and António Guterres have stated that the greatest problems facing humanity cannot be solved without the support of the economic world. Although the economy has made a far greater contribution than the broader public realizes there is still room for improvement.<sup>41</sup>

The assumption of moral responsibility does not

41 *World Business Council for Sustainable Development (2020); Business & Sustainable Development Commission (2017).*

call for moral heroism on the part of willing companies, but is in their own long-term interest. Laws are mostly reactions to events happening in the past, so that sustainably successful actions by leadership personalities anticipate future framework conditions when they take their investment decisions. They know that innovators and those who adapt at an early stage to new developments can ensure substantial advantages for their companies.<sup>42</sup>

What is true of leading executives also applies to all company staff within the limits of their possibilities. But there is a felt discrepancy between the desire to act in a particular way and the ability to do so. The German Values Commission (Wertekommission) names “trust in individual responsibility” (35.5%) as the most important of the six individual core values<sup>43</sup>. However, only a quarter of the top managers questioned said that they were particularly sensitive to moral questions in everyday business life. The great majority even admitted that in certain situations they had to ignore their moral convictions. In addition to the will of the individual to behave with moral integrity an ethical infrastructure and a strong ethical culture are necessary in order to promote value-consistent behaviour and to allow leading executives to implement their moral convictions effectively and responsibly.<sup>44</sup> This, however, brings to the forefront

42 Rogers E.M. (1983).

43 Wertekommission (2019):13. The others are: responsibility (25.9%), integrity (18.8%), respect (11.4%), sustainability (5.1%) and courage (3.3%)

44 Wertekommission (2019): 20ff. The Value Commission envisages seven

the question of the definition of a *leader*.

## **Improving the ethical quality of entrepreneurial action is a precondition for a humane present and future**

Our common future does not consist predominantly of factors outside our control that we must fatalistically accept. Each and every one of us can make a contribution to the shaping of a humane future. The *2030 Agenda for Sustainable Development* indicates the social, economic and ecological baseline; the encyclical *Laudato Si'* describes in addition the humane and spiritual elements.

The current state of affairs is indisputable. In the year 2019 and the preceding years the ice in the Arctic and in Greenland shrank more quickly and more substantially than in the past, forest fires raged more intensively than ever before throughout Australia, South America and Siberia, the robustness of the eco-system declined and the decline was accelerated by the extinction of amphibians, birds, mammals, reptiles and fish.<sup>45</sup> Experts fear a strengthening of this negative trend in the coming years.

It has, it is true, proved possible during the last two

*dimensions of corporate culture: clarity as to what is and what is not desirable conduct; leading executives as role models; implementability of the normative expectations; support of staff through esteem and respect; transparency about the consequences of certain forms of behaviour; openness in bringing up ethical questions and dilemmas and sanctions for unethical conduct and actions.*

<sup>45</sup> IPBS (2019); Mougino J. (2019).

decades to reduce the number of people living in absolute poverty by more than a billion - mainly on account of the success of China. But more than 700 million people are still living beneath the poverty line.<sup>46</sup> The impact of the Corona crisis will raise this number. Growing disparities in wealth, income and life opportunities fuel social unrest in many parts of the world and increase the pressure to migrate. In the Edelman Trust Barometer of 2020 76% saw social disparities as an indication of a deficit in justice. And business enterprises were also seen to be responsible for this development.<sup>47</sup>

Five years after the unanimous passing of the *2030 Agenda for Sustainable Development* not a single country is on track for meeting its targets.<sup>48</sup> The great social and ecological problems remain unchanged and some have increased in severity. The promise to leave no one behind in the implementation of the *2030 Agenda* has not been kept. This also applies to the economy. To this day no convincing concept has been presented from a company perspective on the innovative business models needed to achieve this goal. C.K. Prahalad's recommendation has seldom been implemented in a sustainable way.<sup>49</sup>

This is all the more surprising, as all the great ecological and social problems are mentioned in the *Global Risk Report 2020* of the World Economic Forum as a danger for the world economy. The WEF report im-

46 *World Bank: (2018).*

47 *Edelman Trust Barometer (2020): Slide 12.*

48 *United Nations (2019).*

49 *Prahalad C.K. and H.C. Fruehauf (2006).*

pressively shows that macro-economic risks, social and geo-political tensions, environmental risks and biological threats are not isolated phenomena, but are interdependent and have a cumulative effect.<sup>50</sup>

In view of the acceptance by essential economic organizations such as the BDI (Bundesverband der Deutschen Industrie / Federation of German Industries)<sup>51</sup> and the fact that many companies have announced their support for the *2030 Agenda* on their websites<sup>52</sup> we can assume that the underlying problems have been recognized and that the measures proposed in the *Agenda* have found at least some general support. The failure to act in the light of this knowledge and of the public recognition of the need to do so is action against one's better judgment and reveals a lack of integrity. An improvement in the ethical quality of business action is necessary, and the announcements made must be judged by the subsequent specific activities.

People whose decisions affect the lives of others are expected to act with due diligence and not to duck away or to hide behind institutional resistance. Everyone is in a position to do what is right, no matter how limited his

50 *World Economic Forum: (2020).*

51 *BDI: (2017).*

52 For example BAYER: <https://www.bayer.de/de/un-sustainable-development-goals-nachhaltigkeitsziele.aspx>; SIEMENS: [https://www.siemens.com/investor/pool/de/investor\\_relations/siemens\\_nachhaltigkeitsinformationen2018.pdf](https://www.siemens.com/investor/pool/de/investor_relations/siemens_nachhaltigkeitsinformationen2018.pdf), or VOLKSWAGEN: <https://csrprojekte.volkswagenag.com/dell/daten-und-fakten/sustainable-development-goals.html>. Accessed on 29.06.2020.

sphere of influence is. To present oneself as an individual who would act differently if only he could is an intolerable stance, particularly when it is adopted by leading executives. In normal situations such people always have what Thomas Donaldson and Thomas W. Dunfee call “*free moral space*”.<sup>53</sup> Intellectual honesty, however, also requires us to concede that it is not always possible to find a solution that satisfies all claimant groups.<sup>54</sup> Admitting and justifying this standpoint demands *moral courage*<sup>55</sup> and the best possible cushioning of inevitable hardship calls for social imaginativeness. Both can be expected of leadership personalities

The inter-generational Hippocratic principle “Above all do no harm” (*primum non nocere*) is the minimum requirement, to that we must add, secondly, the need to be careful (*secundum cavere*) and, thirdly, the desire to heal (*tertium sanare*). Such a comprehensive understanding of responsibility can be expected of morally upright leaders. It is the standard for sustainable corporate leadership. Everything else is opportunistic fellow travelling.

In everyday business life it is not just the big issues that count. Management with integrity is a state of mind that must particularly be shown in conduct and actions concerned with supposedly smaller matters. Leadership designed to promote sustainable and humane development begins with friendly, helpful, caring

53 Donaldson, Th. and Th. W. Dunfee (1999): 38ff.

54 Forstmoser P.: (2006).

55 Kidder, R.M.: (2006).

and respectful treatment of the company staff and their environment and a protective and mindful approach to nature.<sup>56</sup> Such a basic attitude fosters the growth of trust.

The addition of all the small changes achieved by the 7.8 billion inhabitants of the world with their different competencies and resources will ultimately be decisive for the success of the endeavour to achieve sustainability. This not only places the onus of responsibility on the heads of big companies but also underlines the importance of the decision-makers in the over four million smaller and medium-sized firms in the German-speaking countries.<sup>57</sup> They can also use their free moral space for additional ethically motivated actions for the benefit of all people living today and in the future. They can also apply their ethical musicality and their moral imagination to develop new business models that establish a (more) harmonious balance between the self-interest of their company and the general welfare of society.

The often-quoted “black sheep” are not the only representatives of the business world. There are other personalities who are beacons of enlightened conduct. Of course, they are still the exception to the rule, but they make the difference between leadership personalities and the mere heads of companies. The great majority of

<sup>56</sup> Leisinger, K.M.: (2018).

<sup>57</sup> Of course, this applies to executives in all institutions all over the world, but this book in German primarily has German speakers as its target group. (Für die englische Übersetzung muss die zweite Hälfte dieser Fußnote geändert oder weggelassen werden)

people in positions of responsibility in business enterprises and in society are “people like you and me” This gives cause for hope, as we all wish for recognition, especially from people who are important to us. People like you and me want to be good and would like to bequeath to others something we can be proud of.

## Chapter 2

# SEMANTIC CLARITY

### 2.1.

#### IMPORTANT CONCEPTS WITH DIFFERING MEANINGS

In his recommendable introduction to the topic of ethics Otfried Höffe draws attention to the “confusing situation” that the Greek expression *ēthikē* is used in the German language for the concepts customs, morals and ethics and that “the three expressions mean more or less the same and [...] none of the various attempts to distinguish between them is absolutely cogent.”<sup>58</sup> In order to ensure that they are properly understood the central concepts used in the present context are defined as follows:

### **Morals**

Morals (from the Latin “*mores*” = customs) is both a descriptive and an evaluative concept. As a descriptive concept it means the totality of customary values, norms

<sup>58</sup> Höffe O. (2013 a): 10.

and guiding principles that are accepted as binding by the majority of a community or society at a specific point in time, in order to regulate interpersonal behaviour with as little conflict as possible. What people feel to be morally normal has developed in the course of time and in the light of the social and economic framework conditions applying in each particular case. If the fundamental social framework conditions change or new knowledge gains general acceptance an adaptive modification of individual moral aspects takes place.

Greek philosophers who developed trail-blazing ethical arguments regarded the possession of slaves to be the most natural thing in the world. And they also accepted the fact that in their society women enjoyed no legal rights. A more recent example of the changing concepts of moral acceptability is the practice of dueling as a means of restoring violated honor. In the 18th and 19th centuries dueling was regarded as morally unproblematic - among political adversaries in France even into the 60s of the 20th Century.<sup>59</sup> Whereas in the past intellectual giants such as Ferdinand Lassalle or Alexander Pushkin lost their lives in duels, nowadays conflicts involving questions of honor are normally settled by lawyers. Similar changes can be observed in regard to approaches to sexuality or gender identity (e.g. LGBTQ). People in a specific society or group know or unconsciously sense how they should act or behave in a particular situation. For this state of affairs the French language has the expression “comme il faut “. Whoever

59 *Schnee Ph. (2009).*

violates a specific moral precept, acts contrary to a corresponding convention, commits a “fauxpas”.

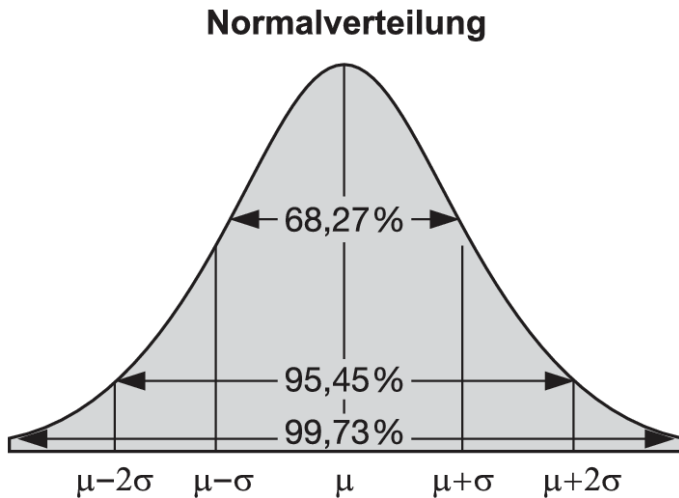
Morality is, therefore, a time-bound, group-specific and hence also culturally determined corridor of accepted forms of action and behaviour. There are as many kinds of morality as there are forms of cultural self-understanding, customs and traditions. However, the range of ethically unobjectionable behaviour within the corridor is limited by non-negotiable human rights and the protection of human dignity.

Differences in moral self-understanding occur not only between different cultures or religions but also within one and the same society. The different part-systems of functionally differentiated societies develop different notions of what should be considered morally normal within their sphere of influence. For example, when a company delivers a bill for services rendered, this disturbs nobody because it is regarded as normal in the world of business. The demand for money in return for pastoral care or the hearing of confession would, however, meet with little understanding because the institutions of a Church should not expect money for these services. Again, the results of university research are published in order to win academic reputation and scientific recognition, whereas the research results of companies are usually treated as business secrets and, if possible, patented in order to achieve a commercial competitive advantage.

The difference in the customs (within the corridor

mentioned above) is a consequence of the defining culture and the functional differentiation within it - it is *not* a symptom of a generally lower or higher level of morality in the part-systems concerned. In my life experience people worldwide are distributed along a “moral Gauss curve” In all sectors or sub-systems there are 2-3 % “saints and geniuses” on one end of the scale and 2-3% “rogues and idiots” at the opposite extreme. In between we find people with differently developed levels of moral awareness, varying intelligence, readiness to work (industriousness) and all the other human characteristics.

### Normal distribution



Graph 1: Source: Gablers Wirtschaftslexikon. <https://wirtschaftslexikon.gabler.de/definition/normalverteilung-39769> . See also here the explanations of the variables denoted in Greek letters.

People in a society have different occupational tasks. If they work in a bank, for a car manufacturer or a chemicals company the content of their work, their aims and criteria for success differ from those of people devoted to pastoral care or those working in an NGO committed to development aid or human rights projects. To draw conclusions on a higher or lower level of morality from the differences in the professional fields involved would be Pharisaic - and hence in itself immoral. The presence of both admirable moral paragons and shocking evil doers in all the part-systems of a society has been a part of the portrayal of morals in all ages. To project the misdemeanors of individuals in companies, Churches or political parties as typical of entire social part-systems would do injustice to the great majority of decent people working in them. Consequently, scandals caused by companies by no means indicate that they have a different Gaussian moral distribution than other institutions.

Different understandings of morality are already recognizable within a single country and in the different social part-systems. And this is even more so the case in the context of cooperation with people from other cultures. What is taken, in one cultural environment, as a moral duty to give preference to one's own family members or close friends (e.g. Guanxi and Ubuntu<sup>60</sup>)

*60 Both are philosophies of life in that the obligation of the individual towards the community has a higher moral value than personal interest. For more details on Ubuntu see: [https://de.wikipedia.org/wiki/Ubuntu\\_\(Philosophie\)](https://de.wikipedia.org/wiki/Ubuntu_(Philosophie)) and on Guanxi <https://de.wikipedia.org/wiki/Guanxi> [last accessed on 16.07.2019].*

can, in a different cultural environment, be proscribed as arbitrary and unjust preferential treatment or even as a criminal privileging of insiders. The temptation to measure the norms, values and guiding principles of others exclusively by applying the standards of one's own culture and consequently condemning them as deficient is understandable but completely mistaken. "Otherness" means, first of all, only what the word itself says. It does not imply, a priori, any kind of moral divide. Encounters with people from other cultures can bring a great enrichment of knowledge, thinking and behaviour. Hence it is of the greatest importance to strive first of all for mutual understanding, openness and sensibility for the otherness of one's counterpart.

However, respect for cultural diversity and otherness has its limits. The existence of a core of normative principles and inalienable value standards valid in all cultures and all religions at all times is a part of the established wisdom of humanity. This basic moral consensus includes, for example, the Golden Rule, reverence for life, non-violence, truthfulness and partnership, as elaborated by Hans Küng and his colleagues in the world ethos body of thought.<sup>61</sup> This basic consensus can under no circumstances be abandoned in economic cooperation with the representatives of other cultures. Normatively inspired action can indeed have a monetary price (for example loss of revenue), but leaders of integrity are willing to pay this price. They regard it as an investment

<sup>61</sup> Küng H. (2012). For further information see <https://www.weltethos.org> [last accessed on 16.07.2019].

in a sustainable leadership culture.

When a specific community absolutizes the validity of its own customs and traditions morality becomes an evaluative concept. Unconventional behaviour can then, in extremes cases, be regarded as immoral. Such an approach can be found, for example, among fundamentalist religious or political groups. By referring to the supposedly infallible truth of their dogmas they impose specific ways of thinking, acting and behaving on all mankind and, if need be, ensure their observation by the use of violence. Tolerance, however, has its limits where dogmatic intolerance leads to the violation of the dignity and rights of other people. This also applies to activities and behaviour in the economic world.

## **Ethics**

Ethics is moral philosophy. It undertakes research into the criteria according to that the moral norms of a community can be characterized as good, just and biophile - or possibly not. "Guided by the idea of a good and just life" philosophical ethics attempts "to make methodically well-founded and generally valid statements without appealing to political or religious authorities as a final instance."<sup>62</sup> It is not concerned with what is useful for an individual or a society at a certain point in time or what is regarded as convention This would be a question of morals. Instead it deals with statements

62 Höffe O. (2013): 23.

on the good THAT are generalizable and recognizable for all people of good will. In the process philosophical ethics arrives at value standards and behavioural norms THAT embed properly understood self-interest, i.e. the achievement of a successful human life, in the sustainable wellbeing of all society. The claim to normative recognition goes beyond specific groups and temporary recognition - as in the case of morals - and hence remains untouched by any forms of individual or collective arbitrariness. However, in view of the disparity between the various schools of ethical thought, the decision to act in accordance with ethical criteria can lead to differing conclusions. This point will be dealt with in more detail later.

## Values

When we talk of values in the present context, we mean what is broadly regarded and supported as desirable in a given society. We are dealing with learned and internalized notions serving as a compass to guide the actions and behaviour of people as a means of promoting the common good and shaping life in a community or society in the most peaceful way as possible. The entirety of the (religious, customary, material and other) values determines the framework for the rules of the game to be observed by actors in the various part-systems of a society.<sup>63</sup>

<sup>63</sup> Niklas Luhmann describes society as a comprehensive social system consisting of various part systems (e.g. the economy, politics, science, law, religion), each

In everyday business life values such as performance, usefulness or financial success stand in the foreground. In order to render success in business morally acceptable, however, the performative business values must be embedded in a corridor of moral values. Examples of such values are honesty, fairness, reciprocity and - as far as human relationships are concerned - respect, empathy and non-discrimination. The actors in other social sub-systems, e.g. family, religion or the arts, are part of the same cosmos of values but have a different values hierarchy than people operating in the economic sub-system. Values provide an orientational framework for decisions and actions and are the point of reference for many guidelines for action.

There are many indications that in industrialized countries a shift in values is taking place, whereby the importance of material values (wealth, income) and “duty values” (e.g. industriousness, discipline) is declining and the importance of so-called post-material values (e.g. self-fulfillment, participation in decision-making processes) tends to be on the increase.<sup>64</sup> This pluralism in regard to values is more pronounced in our Western societies. Both the shift in values and the growing multiplicity of values influence what people in society regard as legitimate action in the business field. On the positive

*of that fulfils a specific function for the overall system (functional differentiation). On this point see Luhmann N. (1995) and Luhmann N. (2012/2013).*

*64 On this point see: <https://www.bpb.de/politik/grundfragen/deutsche-verhaeltnisse-eine-sozialkunde/137990/sozialer-wandel> [last accessed on 16.07.2019].*

side we can point out that there is a normative common ground that has found and continues to find recognition everywhere in the world, in all cultures and in all times. It comprises generally recognized basic values such as non-violence, justice, truthfulness, partnership and concern for the preservation of creation.<sup>65</sup> To fill these values with practical life in the business context is a challenge for all people of good will.

## Norms

This concept is used ambiguously, but can always be traced back to the Latin *norma* guideline, rule, standard. In the present context we are not concerned primarily with legal norms founded on the law or with standardization norms defined by established national (DIN) or international (ISO) procedures, but with social norms. These are concrete directives for action and behaviour for individuals and groups in society, who should apply the values they contain in specific situations. In this way living together in peace, freedom and justness is to be ensured and the common good promoted.

Social norms involve differing degrees of binding. Ralf Dahrendorf distinguishes between “must” norms, “shall” norms and “can” norms.<sup>66</sup> Respect for *human rights* with no ifs or buts is a “must” norm, whose violation

65 On this point see the declaration on the world ethos: [https://www.weltethos.org/was\\_ist\\_weltethos/](https://www.weltethos.org/was_ist_weltethos/) [last accessed on 16.07.2019].

66 On this point see Dahrendorf R. (1968). We will go into this differentiation again below in the context of the social responsibilities of companies.

leads to punishment before the courts. Seeing the effects of one's own actions from the perspective of others affected by them and treating others in a way one would wish to be treated oneself (Golden Rule) is a "shall" norm whose observation brings recognition and non-observation disapproval but no punishment before the courts. Encountering other people with warm-hearted friendliness and helping them without any ulterior motives is a "can" norm whose observation mostly results in appreciation and thankfulness, whereas the lack of observation has no consequences.

## **Responsibility**

Responsibility is the assumption of a commitment to accept the possible consequences of an action, to be accountable for it and to endure any penalties it might involve. It requires the existence of a conscience, knowledge of value concepts, legal regulations and social norms. Responsibility increases in relation to the action potential and the knowledge of the actor. The acceptance of responsibility assumes the existence of a freedom to decide on a chosen course of action. Responsibility is always relational, that is to say, it is taken by a person:<sup>67</sup>

- for the consequences of an action or failure to act
- towards an addressee or an instance
- in regard to normative criteria in the performance of a task

<sup>67</sup> Lenk H. and M. Maring (1996).

→ within the framework of a specific sphere of action, area of responsibility and period of time.

Moral philosophical discourse on the responsibility of people working in companies is concerned with the nature of their duty to work not only in the best business interests of the company but also in accordance with ethical criteria (good, fair, just, sustainable). As a minimal requirement harm to people, society and the environment must be avoided. For the observation of these duties the bearers of responsibility can be accountable to a variety of instances: to the earthly courts, their conscience, the conventions of their community or God.

The concept of corporate responsibility is also defined by different actors in a wide variety of ways. In our context it is understood as the “response” of the heads of companies to the interests of society in their decisions, business actions and behaviour. A distinction can be made between a “must”, a “shall” and a “can” dimension of responsibility, but all of these dimensions represent a continuum and cannot be offset against each other.

As no one can be made responsible for everything, responsibility must be personalized and concretized. Where all are supposedly responsible for everything nobody feels a personal obligation - the extent and depth of the responsibility to be taken remains diffuse. Watering down of the responsibility must also be avoided, that can be quite demanding when complex processes are involved. In differentiated societies and institutions

involving division of labour a clear attribution of responsibility is often difficult because the performance of complex processes can be split up among several individuals and interdependencies with other fields of action and the corresponding bearers of responsibility can arise.

A single action can, in certain circumstances, be fully unproblematic from an ethical standpoint, whereas the overall result of all the individual actions taken can nonetheless be highly irresponsible. For justice to be done in such cases, responsibility must be attributed not only to individuals but also to the institutions involved - for example a company and its control and regulation structures (*its governance*). Ensuring adequate governance is, in turn, the duty of leadership personalities. Their personal understanding of ethics, in particular the responsibility ethics so lucidly described by Max Weber, also determines the institutional dimension of corporate ethics.

## **Integrity**

Personal action determined by integrity is (private or business) activity carried out in accordance with the value convictions and ideals to that one is irrevocably committed. The implicit orientation of value convictions is provided by a religiously or humanism-based ethics.

However, morally upright action is always action in accordance with the knowledge an actor can be rea-

sonably expected to possess on the (social, ecological and other) consequences of his personal activities and behaviour. This proviso is often underestimated. Morally upright action of all people and not just of those who work for a company is (also) a form of behaviour that will help to overcome the obstacles standing in the way of a worldwide sustainable development, and in this regard we must apply the motto of the Swiss writer Jeremias Gotthelf: "Whatever is to shine forth from the fatherland must begin at home." Professional or private actions carried out against one's better knowledge indicate a lack of personal integrity.

As the "question of ethics" is of central importance in the present context it must now be dealt with in greater depth.

## Chapter 3

# THE "QUESTION OF ETHICS"

### 3.1. AN OVERVIEW

People who seriously endeavor to take into account the direct or indirect, short-term or long-term, intentional or unforeseeable effects of their actions when taking decisions are faced nowadays with a more complex task than their historical predecessors. On the one hand we now have access to much more knowledge on the effects of economic and social action on the ecological and social environment and on issues of human rights than in the past and, on the other hand, economic activities have acquired a global dimension that vastly enlarges the spectrum of responsibility for the actors in the business world. Finally, the pressure of time and resources on decision-makers has increased at a time when they are faced with a far greater complexity of the issues calling for decisions.

If we are to fulfill the requirements of morality (as defined in Chapter 2), we must take into account not only what is at present regarded as responsible business practice within the companies and their immediate cul-

tural environments, but must also search for criteria for “good” business actions that enjoy general validity. To this end we have at our disposal a vast store of scientific knowledge in the wisdom expressed by moral philosophical thinkers over the last 2500 years.

However, this treasure trove only contains very general references to the criteria that should determine decision-making. Although in a specific situation the endless number of possible actions can be reduced to a few options that can be regarded as legitimate, the bearer of responsibility cannot be relieved of the obligation to make the final decision. To make matters even more difficult, but to bring them closer to reality, we must be aware that the room for maneuver when taking decisions involving additional investments or restrictions on business dictated by moral considerations is not unlimited under the conditions of global competition. Of course, there can be no question that the laws and regulatory requirements must be observed. In the case of business activities that search for a legitimacy over and beyond the requirements of national legality there is a danger that the “good” decision-makers will turn out to be “well-meaning idiots” because the morally correct activities of ethically oriented actors can be abused by less scrupulous actors for competitive advantage.<sup>68</sup>

Individual readiness to take moral philosophical

*68 Homann K. (2014). By way of an example we can refer here to the discrepancy between the requirements of local laws and the international consensus in the case of working conditions and environmental regulations.*

wisdom into account when making business decisions can, furthermore, lead to different instructions for action with differing consequences. Various ethical schools of thought can arrive at different recommendations in any specific situation. In the final analysis the personality, character and value convictions of the individual decision maker remain the most important determining factors. The fundamental challenge lies in harmonizing the demands of the common good and generational justice with the usually short-term goals and wishes of the actors involved in a deal.

Leaving aside the finer nuances, ethical reflection on the principles governing transactions can be roughly divided into three categories reflecting different ethical schools of thought. The moral quality of an action depends primarily on:

- whether actions are undertaken in accordance with a generally binding rule: duty ethics;
- what the effects and consequences of a decision are for other people and the environment: consequentialist ethics, also termed success or utility ethics or
- whether the character and personality traits of a decision maker are such that he or she is in a position to act in accordance with ethically acceptable principles: virtue ethics.

In specific decision-making situations in everyday business life most aspects of all three schools of thought play a part. The complexity of problems in modern so-

ciety must also take into account ideas introduced into ethical discourse by people like Hans Jonas,<sup>69</sup> Karl- Otto Apel<sup>70</sup> and Jürgen Habermas.<sup>71</sup> The cooperative search for truth and the resolution of action conflicts by means of ethical discourse developed by Jürgen Habermas and Karl-Otto Apel has done particularly good service when success ethics has been drawn upon in arriving at decisions.

Finally, the aids to decision-making supplied by the fictional person Adam Smith calls the “impartial spectator”<sup>72</sup> or the concept of the “veil of ignorance”<sup>73</sup> recommended by John Rawls have lost none of their importance. And as the reality of human life and the complexity of dilemma situations can never be mastered by means of strictly formulated rules, we will deal later with the role and significance of situation ethics.

The aim of this text is not “professorial philosophy”, as Karl Jaspers once put it.<sup>74</sup> It is intended, instead, to provide interested and motivated practitioners with indications of ways to deal with situations involving dilemmas. To this end only the central principles underlying the decisions of the various schools of thought in specific cases are elaborated and reference is made to only one or two of the prominent representatives of each school.

69 Jonas H. (1984).

70 Apel K.-O. (1990).

71 Habermas, J (1993)

72 Smith A. (1759/2009).

73 Rawls J. (1975).

74 Jaspers K. (1954) 137.

### 3.2.

#### ACTIONS IN ACCORDANCE WITH DUTY ETHICS

Duty ethics is also called deontological ethics, taking this name from the Greek word *deon* (duty, what is required). It assumes, on the one hand, that there are forms of action that are clearly bad and must be absolutely avoided. On the other hand, there are actions that are absolutely right, whose observance is imperative regardless of the circumstances. This leads to the corresponding commandments “Thou shalt” or “Thou shalt not”.

The personal feeling of a duty to observe what one regards as an unconditional moral law is the sole motive for choosing a particular course of action. The choice of such actions may also be intelligent, but intelligence in regard to the usefulness of the choice for achieving a certain goal or the inclination to behave in this way and not differently is not part of the evaluation of the action’s ethicality.

#### **Immanuel Kant and his Categorical Imperative**

A prominent example of duty ethics is Immanuel Kant’s categorical imperative, that requires that every individual must examine his actions in order to establish whether they are in accordance with rules of action that are valid without exception for all mankind at all times. In this context Kant uses the concept of a maxim, that

he defines as the “subjective principle of volition”<sup>75</sup> He formulates his categorical imperative in several ways, among others as follows:

*“Act only according to that maxim through that you can at the same time will that it become a universal law” or “as if the maxim of your action were to become by your will a universal law of nature.”<sup>76</sup> And:  
“So act that you use humanity, whether in your own person or in the person of any other, always at the same time as an end, never merely as a means.”<sup>77</sup>*

For Kant the moral value of an action thus lies not in its intention or the effect it has, but exclusively in the good will based on inner conviction to act in accordance with the moral law. External incentives - for example possible or expected applause from outside - have no relevance for the decisions taken.

By differentiating between the categorical imperative (in this way and no other) and a hypothetical imperative (it depends on the circumstances!) Kant makes an important distinction. The hypothetical imperative calls for an “if-then” decision in that the practical utility of the chosen action for the achievement of a certain goal stands in the foreground.

This sounds complicated and abstract, but in my experience it is of great significance for the sustainability

75 Kant I. (1785/1997): 56.

76 Kant I. 1785/1997): 73.

77 Kant I. (1785/1997): 80.

of political and business actions. A central obstacle to the speedy implementation of the *2030 Agenda for Sustainable Development* is the fact that both the business and the political spheres are shaped by predominantly short-term incentive structures. A politician who wishes to be re-elected within the next four years will not wish to impose any burdens or discomforts on his potential electors. The enforcement of higher prices for fossil energy carriers as an incentive for reduced consumption resulting in lower CO<sub>2</sub> emissions would, in view of our present knowledge, be an important step towards the solution of an ecological problem. But as this would possibly cost votes in an election the political courage to take the step is lacking. The consistent implementation of the *2030 Agenda for Sustainable Development* is consequently often felt to be only a hypothetical imperative. One only undertakes steps that do not “hurt” one’s political clientele and hence do not cost votes in an election.

Leading personalities in the economic sphere are presented with a similar dilemma. Consistent action in the interests of the *2030 Agenda* over and beyond what is required by law ought to be a moral duty in view of the known facts and their probable consequences. But here too the incentive structures operating in the business sphere stand in the way of change. The results-based flexible share of overall income is mostly high and usually depends on financial outcomes (turnover, profit, share prices) in a particular business year or even in a quarterly report. In this situation even enlightened business leaders have difficulty in justify-

ing expensive environmental investments beyond legal requirements in the short-term, both to the financial analysts and to themselves as potential beneficiaries of business decisions. The *return on investment* of wise actions would only be partly measurable in monetary units; it might only show in the distant future, possibly in a different part of the world, and to the benefit of other people. In any case the advantages deriving from correct action would lie outside the period of time that is relevant for the financial sector or for the calculation of dividends and one's own bonus. "Correct" action can thus have negative effects - unless the incentive systems take the moral requirements into account and the shareholders are willing to go along. More on this later.

The same is true of the "can" dimension of the social responsibility of business enterprises. With reference to the *2030 Agenda* many companies express themselves in a way that could be taken as a commitment to making contributions to its implementation. A centerpiece of the *2030 Agenda* is, however, the promise of the international community stated in Chapter Four of the declaration.

*"As we embark on this great collective journey, we pledge that no-one will be left behind. Recognizing that the dignity of the human person is fundamental, we wish to see the goals and targets met for all nations and peoples and for all segments of society. **And we will endeavor to reach the furthest behind first.**"* (My bold type KML)

If leading personalities in a company regard it as their moral duty to contribute to the fulfillment of this promise within the framework of their possibilities and competencies, they will invest a part of the available company resources for the development of new business models.<sup>78</sup> If they go further and make knowledge, expertise and financial resources available for philanthropic purposes they do this from inner conviction. Their good will aims to overcome distress or to solve a problem that cannot be solved by actions in conformity with the market alone in view of the lack of purchasing power of the people concerned. Public recognition for such actions would be admirable, but a lack of applause is, however, no reason to act differently. The fact that Immanuel Kant regarded philanthropy as at best “an imperfect duty” does not make such actions any less worthy of recognition.

Wherever an understanding of law or duty is cultivated in accordance with the categorical imperative (*fiat justitia et pereat mundus*), without taking into account the outcomes of actions, the consequences can be catastrophic for the affected persons. In these cases, it is always worthwhile to recall the reflections of Max Weber in his essay “Politics as a Vocation” He makes a distinction that is important in business life between *ethics of conviction* (in his terminology an ethics of ultimate ends) and an *ethics of responsibility*. It is not the case that an ethics of conviction is identical with lack of

78 On this point see Prahalad C. K. and S. L. Hart (2002). See also Prahalad C. K. and A. Hammond (2008).

responsibility or responsibility ethics with unprincipled opportunism, but there is an “abysmal contrast between conduct that follows the maxim of a conviction ethics... and conduct that follows the maxim of an ethic of responsibility.”<sup>79</sup>

*“The believer in an ethic of ultimate ends [ethics of conviction] feels responsible only for seeing to it that the flame of pure intentions is not Squelched...To rekindle the flame ever anew is the purpose of his quite irrational deeds, judged in view of their possible success.”*

If the consequences of an action resulting from pure intention are evil the believer in an ethic of ultimate ends [ethics of conviction] does not feel responsible. He makes “the world, or the stupidity of other men, or God’s will who made them thus” responsible.

The ethicist of responsibility, however, reckons with the deficiencies of others “He will say that “one has to give an account of the foreseeable results of one’s actions.”

A further statement from Max Weber’s essay carries great weight in the context of business (but also political) activities. He emphasizes the great importance of the character and personality of people whose decisions affect others:

*“No ethics in the world can dodge the fact that in numerous instances the attainment of ‘good’ ends is bound*

79 Weber M. 1919/ (1946) 121.

*to the fact that one must be willing to pay the price of using morally dubious means or at least dangerous ones and facing the possibility or even the probability of evil ramifications. From no ethic in the world can it be concluded when and to what extent the ethically good purpose 'justifies' the ethically dangerous means and ramifications."*<sup>80</sup>

A modern variant of duty ethics is the result of the work of former heads of state and government organized in the Interaction Council

## **InterAction Council**

### **Universal Declaration of Human Responsibilities**

The *Inter Action Council* was founded in the year 1983 with the intention of applying the experience and accumulated knowledge of the former holders of the highest political offices to the analysis of problems and the recommendation of solutions in the fields of peace, security and sustainable development. With substantial support from Hans Küng it has elaborated a *Universal Declaration of Human Responsibilities*<sup>81</sup> as a supplement to the *Universal Declaration of Human Rights*. It is founded upon the statements made in the Declaration toward a Global Ethic.<sup>82</sup> The principle message, that

80 Weber, M. (1919/1946) 121

81 InterAction Council (1997).

82 [https://www.weltethos.org/1-pdf/10-stiftung/declaration/declaration\\_german.pdf](https://www.weltethos.org/1-pdf/10-stiftung/declaration/declaration_german.pdf) [last accessed 16.07.2019].

rights and duties are insolubly linked and apply equally to all people in society, is also of profound importance for the discourse on the social responsibility of business enterprises. In the preamble it is stated that:

- the recognition of human dignity and human rights involves the recognition of duties and responsibilities;
- the exclusive insistence on rights can result in conflict, division and endless dispute, and the neglect of human responsibilities can lead to lawlessness and chaos;
- the rule of law and the promotion of human rights depend on the readiness of men and women to act justly;
- all people, to the best of their knowledge and ability, have a responsibility to foster a better social order, both at home and globally, a goal that cannot be achieved by laws, prescriptions and conventions alone;
- human aspirations for progress and improvement can only be realized by agreed values and standards applying to all people and institutions at all times.

The logic behind the proclaimed human duties is easy to understand: *there are no rights without duties.*

- The right to life must be accompanied by the duty to respect life.

- The right to freedom must be accompanied by the duty to respect the freedom of others.
- The right to security must be accompanied by the duty to create the corresponding conditions for human security.
- The right to participate in political life and in the election of our political representatives must be accompanied by the duty to make use of our right to vote and to choose the best representatives.
- The right to work under just and favorable conditions in order to ensure an adequate standard of life for ourselves and our families must be accompanied by the duty to achieve these conditions to the best of our ability.
- The right to freedom of opinion, conscience and religion must be accompanied by the duty to respect the opinions or religious principles of others.
- The right to education must be accompanied by the duty to learn as much as we can to the best of our abilities and, where possible, to share our knowledge and experience with others.
- The right to make use of the fruits of the earth must be accompanied by the duty to respect the earth and its natural resources, to care for them and to renew them.

From the specific perspective of business action one could add that the right of the consumer to goods

and services produced in a socially just and ecologically sustainable way must be accompanied by the will of the consumer to make use of his purchasing power accordingly. The same applies to the allocation of capital when shares are bought.

The following passages from the Declaration of Human Responsibilities can be applied without modification to business activities:

*“Thus, the more freedom we enjoy, the greater the responsibility we bear, towards others as well as ourselves. The more talents we possess, the bigger the responsibility we have to develop them to their fullest capacity. We must move away from the freedom of indifference towards the freedom of involvement. The opposite is also true: as we develop our sense of responsibility, we increase our internal freedom by fortifying our moral character. When freedom presents us with different possibilities for action, including the choice to do right or wrong, a responsible moral character will ensure that the former will prevail.”*

And:

*“Without a proper balance, unrestricted freedom is as dangerous as imposed social responsibility. Great social injustices have resulted from extreme economic freedom and capitalist greed, while at the same time cruel oppression of people’s basic liberties has been justified in the name of society’s interests or communist ideals.”*

A first conclusion: The duty ethical approach is an

important pillar supporting the formation of judgments and the finding of decisions in business life - but it is only one possible approach. In order to test the justice of decisions affecting other people an analysis of their effects is also indispensable. In this respect we can draw upon the concept of consequentialist ethics.

### 3.3.

#### ACTIONS IN ACCORDANCE WITH CONSEQUENTIALIST ETHICS

Under the concept of consequentialist ethics one can subsume those schools of thought that judge the moral quality of an action or the failure to act by its consequences. Over the last 300 years several variants of Utilitarianism have developed whose historical and dogmatic particularities cannot be entered into here.<sup>83</sup> In general it can be said that from this perspective actions can be regarded as morally good when they result in the greatest possible number of desirable effects and the lowest possible number of undesirable effects for the greatest possible number of people.

What is morally good derives from the positive evaluation of factors that are not themselves an aspect of moral philosophy. The reduction to a notion of util-

*83 Otfried Höffe does this and writes of a “confusing number of differentiated positions and sub-positions. Hence it is possible today to distinguish between the negative and the positive, the subjective and objective, the hedonistic and the ideal utilitarianism, and above all between act and rule utilitarianism and happiness and preference utilitarianism” See Höffe O. (2013 b): 9. For the varieties of utilitarianism and a critique see also Schroth J. (2016).*

ity defined in monetary terms as the sole measure of a “good” action would be a coarse oversimplification. However, an individual who attempts to take into account all the near and distant effects of a decision from an economic, social, political, ecological and humane point of view will quickly reach his limits.

For leading personalities in the economy (and in politics), however, the limits of their capacity for judgment are more widely set than in the case of interested laymen. They have the opportunity to generate the knowledge they require themselves or through the staff in their institutions. This enables them to examine not only all the relevant legal, technical, economic and ecological, but also the moral consequences of highly complex business actions, so that they are in a position to recognize and hence to avoid risks at an early stage. This point will be taken up again later in connection with institutional “corporate ethics”.

In the context of business activities utility ethics plays a special part as it is often drawn upon to justify specific forms of action. The central ideas associated with utility ethics such as “the end justifies the means” or “the greatest happiness of the greatest number” do not do justice to the basic concerns of most utilitarian thinkers. It would be presumptuous to attribute an incapacity for differentiated thinking to intellectual geniuses and brilliant founding fathers such as *Francis Hutcheson*, *Jeremy Bentham* or *John Stuart Mill*. A fair judgment must take into account that they and other representatives of utilitarianism argued against the

background of specific assumptions on the nature of man. Calculating, fraudulent people who plan and cultivate evil actions are not a part of their image of man.

Frances Hutcheson<sup>84</sup> (1694-1746), to whom the maxim “the greatest happiness of the greatest number” can be traced back, argued on the basis of a profoundly felt duty to act in the spirit of Christian love of one’s neighbor. He assumes the existence of an individual intuitive moral sense that guides people in their decision-making over and beyond any notions of mere economic usefulness.

Jeremy Bentham (1747-1832) considers *happiness* as a state in that *pleasure* is greater than possible *pain* - both being understood in a holistic sense. It would be absurd to attribute a purely economic view of things to him.<sup>85</sup>

John Stuart Mill (1806-1873) placed value on an adequate understanding of the concepts of *utility* and *happiness*, if they are to be regarded as indispensable guiding principles for human actions. Mill was not (only) interested in the happiness of the individual actor, but in the greatest happiness overall, that is to say, including the happiness of all other persons affected by a decision.

*“The great majority of good actions are intended not for*

84 See <https://www.iep.utm.edu/hutcheso/>: “that action is best, that procures the greatest happiness for the greatest numbers; and that, worst, that, in like manner, occasions, misery.” [last accessed on 16.07.2019].

85 Bentham J. (1789/2017).

*the benefit of the world, but for that of individuals, of that the good of the world is made up; and the thoughts of the most virtuous man need not on these occasions travel beyond the particular persons concerned except so far as is necessary to assure himself that in benefitting them he is not violating the rights, that is the legitimate and authorized expectations, of anyone else”<sup>86</sup>*

Actors are “called on to consider public utility.”<sup>87</sup>

In order to behave morally, according to J.S. Mill, one should not apply the utilitarian principle exclusively, but should also stress “other beauties of character that go towards making a human being lovable or admirable.”<sup>88</sup> In all their decisions people also have to weigh up „these conflicting utilities against one another“<sup>89</sup>

In his treatment of utilitarianism Mill deals extensively with the criticisms of utility ethics. He explicitly repudiates simplifying interpretations such as the “utility of pleasure”<sup>90</sup>, possibly even “in its grossest form”. For him what is good in the context of the utilitarian theory of morals rests essentially upon the feeling of pleasure or happiness and freedom from pain. He admits that some kinds of pleasure are more desirable and valuable than others, but regards this as quite compatible with the

88 Mill J.S. (1861/1962): 270

89 Mill J.S. (1861/1962). 270

88 Mill, J.S. (1861/1962)

89 Mill J.S. 1861(1962) 275

90 Mill J.S. (1861/1962) Ch. 2 *passim*. Here 256.

principle of utility.

The following statement, among others, reveals the realism of his image of man: "The capacity for nobler feelings is in most natures a very tender plant, easily killed, not only by hostile influences, but by mere want of sustenance"<sup>91</sup> For this reason general education and "the cultivation of nobleness of character" are for Mill an important concern. If it should prove possible to overcome gross imprudence, ill-regulated desires or imperfect social conditions such as poverty it would be possible to root out "most of the great positive evils of the world".<sup>92</sup>It would be interesting to consider such ideas in the context of corporate learning and management courses, for example by taking "do no harm" as an equivalent to "freedom from pain".

An indication of Mill's image of man can be found in his response to possible objections that the theory of utility is a godless doctrine:

*"If it be a true belief that God desires, above all things, the happiness of his creatures, and that this was his purpose in their creation, utility is not only not a godless doctrine, but more profoundly religious than any other....A Utilitarian who believes in the perfect goodness and wisdom of God necessarily believes that whatever God has thought fit to reveal on the subject of morals must fulfill the requirements of utility in a supreme degree...Whatever aid religion, either natural or revealed,*

91 Mill J.S. (1861/1962) 261

92 Mill J.S. (1861/1962): 266.

*can afford to ethical investigation, is as open to the utilitarian moralist as to any other*<sup>93</sup>

Modern advocates of utilitarian thinking such as Peter Singer measure the moral value of an action by the degree to that it *fulfills the preferences* (interests) of the beings involved (both humans and primates). The better their lives are lived in accordance with their rational and emotional interests the better they are judged to be.<sup>94</sup>

If such differentiations are taken into account, the criteria of utilitarian ethics can be useful as an aid to judgment in everyday business life:

If utility in the sense of short-term feelings of pleasure is regarded as less desirable than long term feelings of happiness and contentment, then large quarterly profits would only be morally justifiable if they were accompanied by the achievement of a higher good, for example the long-term wellbeing of the company and all its stakeholders (staff, clients, shareholders and the community). Experience made during the financial crisis shows how great even the mid-term damage for a company and society can be, when short-term success, rewarded with short-term bonuses, tempts managers to take higher risks.

If we consider the happiness-related “benefits” and “costs” in a business context we come across the problem of weighing up and offsetting the various effects of one

93 Mill J.S. (1861/1962): 273.

94 Singer P. (1993).

and the same action. From an ethical point of view, it is not possible to offset human beings against one another, as case studies have indicated<sup>95</sup> and as has been variously discussed during the Corona crisis. A comprehensive benefit-harm calculation (hedonistic calculation in Jeremy Bentham, agape calculation in Joseph Fletcher<sup>96</sup>) is no longer possible under such circumstances. The rule recommended by John Stuart Mill in such situations is rather abstract, but nonetheless practicable:

*“If one of two pleasures is, by those who are competently acquainted with both, placed so far above the other that they prefer it, even though knowing it to be attended with a greater amount of discontent, and would not resign it for any quantity of the other pleasure that their nature is capable of, we are justified in ascribing to the preferred enjoyment a superiority in quality, so far outweighing quantity as to render it, in comparison, of small account.”<sup>97</sup>*

Applied to business activities nowadays this means, for example, that *finance capital profits* (e.g. higher bonuses for the top management and higher profits for owners of capital) cannot be offset against social capital losses (arising from the dismissal of staff who lose the guaranteed income they need to support their families). Similarly, environmental capital losses such as effects on climate change or the reduction of biodiversity cannot

95 Edmonds D. (2015).

96 Fletcher J. (1966).

97 Mill J.S. (1861/1962): 259.

be offset against finance capital gains that arise from lower costs for environmental protection. In addition, the losses of social and environmental capital are difficult to quantify in monetary terms, and there is no other shared “currency” we can draw upon. Happiness is also perceived differently in different cultures and social classes. The measurement of emotional feelings such as happiness always requires more than can be grasped in economic terms.<sup>98</sup>

The greatest benefits even for a majority of people cannot be considered legitimate if they are made at the expense of extreme harm to the life and limb of a minority living today or in the future, or of a violation of their human rights or human dignity

It is evident that the consequences of human activities in the economy, politics and society should be as desirable as possible, or at least accompanied by a minimum of undesirable effects for other people and for nature. However, the value of utility ethics for moral judgment in the business world does not only depend on embedding it in an overall moral whole, but also on a variety of other factors, for example:

- whether we are in a position to ascertain and evaluate all the consequences of our actions or the probability that they will come about;

*98 On this point see the annual issues of the World Happiness Report. Online under: <http://worldhappiness.report> [last accessed on 16.07.2019].*

- whether and how far interpersonal utility preferences are comparable;
- whether – in spite of the recognition of the importance of overall utility - obviously forbidden actions should be excluded, even when they might be useful in the short term or could help to solve difficult problems. Examples calling for discussion could include interferences in property rights (raising of rents for houses) or the legitimacy of new nuclear power stations as a transitional technology for the protection of the climate.<sup>99</sup>

Further points of criticism of utilitarian ethics include its neglect of the special relationship between, for example, parents and their children, the lack of recognition for moral rights and the neglect of the value of human dignity (that has been instrumentalized in utilitarianism as a means to an end).<sup>100</sup> The aspects of fairness and distributive justice in regard to benefits and encumbrances, that are an indispensable feature of the contemporary discussion on ethics, are also lacking.<sup>101</sup> A final quotation from Mill leads us to the topic of virtue ethics:

*“For certainly no ethical standard decides an action to be good or bad because it is done by a good or a bad man, still less because done by an amiable, a brave or a benevolent man, or the contrary. These considerations*

99 Eichenberger R. and D. Stadelmann D. (2019).

100 See Schroth J. (2016): 21 ff.

101 See Lyons D. (2013): 220 ff

*are relevant, not to the estimation of actions, but of persons*"<sup>102</sup>

A second conclusion: Consequentialist ethics is also an important pillar of support for the formation of judgments and the making of decisions in business life - but it is only one pillar. The weighing up of different effects (financial, social and environmental capital) and the protection of the justified interests of minorities and future generations requires men with the corresponding qualities of character.

#### 3.4.

#### ACTIONS IN ACCORDANCE WITH VIRTUE ETHICS

Whereas duty ethics defines the moral quality of actions in accordance with a moral law that is regarded as indispensable and consequentialist ethics takes the greatest possible benefit for all concerned as its measure, virtue ethics takes into account the fact that what is to be regarded as "good" must usually be determined situationally. But this can only be done by people of integrity who are characterized by a sense of responsibility and an ethically reflective state of mind. Neither categorical duties nor the consequences of an action stand in the foreground, but the character and personality traits of the actors involved. If they are virtuous, according to this school of thought, then they will make morally cor-

102 *Mill J.S. (1861/1962): 271.*

rect decisions in specific situations.

Aristotle (384-322 B.C.) is regarded as the founder of virtue ethics. For him virtues are practiced fundamental attitudes that a person can learn with the help of his reason and his capacity for empathy. In his *Nicomachean Ethics*<sup>103</sup> he describes how one can develop into a virtuous being by sustained practice and so arrive at a conduct of life that brings spiritual happiness and inner contentment.

Of interest in the social context is his statement that the life of money-making is undertaken under compulsion and that wealth in itself only has a use value, but cannot be the ultimate goal of man, namely a good and human life (1096a5-9). For Aristotle happiness is “something final and self-sufficient, and is the end of action.” (1097b20) It is also interesting that “a good and noble performance of actions” is an essential aspect of moral excellence” (1098a5ff.)

*“Since then the present enquiry does not aim at theoretical knowledge like the others, (for we are enquiring not to know what virtue is, but in order to become good since otherwise our enquiry would have been of no use) we must examine the nature of actions, namely how we ought to do them, for these determine also the nature of the states of character that are produced”*(1103b30).

And:

103 Aristotle (2009) 7 (*The quotations follow the numbering of the Greek text of the 1831 Berlin Academy Edition*).

“We must, however, not only make this general statement but also apply it to the individual facts. For among statements about conduct those that are general apply more widely, but those that are particular are more true.” (1107b1)

Aristotle divides “moral virtue” into intellectual (dianoetic) virtues and the virtues of character (ethical or moral virtues) Wisdom, intelligence and moral insight are intellectual virtues that can be learned in the course of time and with experience whereas liberality and temperance are defined as *character values*. (1103a7-14).

For Aristotle virtues lie in the middle between two vices characterized by excess and deficiency. (1107a1ff):

- Courage as the mean between recklessness and cowardice.
- Temperance as the mean between self-indulgence and insensibility.
- Liberality (in money matters) as the mean between prodigality and meanness.
- Proper pride as the mean between empty vanity and undue humility.
- Truthfulness as the mean between boastfulness and mock modesty.
- Friendliness as the mean between excessive obsequiousness (provided there is no ulterior motive!) or flattery (when it only pursues its own advantage)

and general quarrelsomeness or surliness.

- Righteous indignation as the mean between envy and spite.

Finally, we must refer to two aspects of Aristotle's ideas on virtue that are particularly important for business life: *Practical wisdom* and *equity*.

### **Practical wisdom (*Phronesis*):**

*“Now it is thought to be a mark of a man of practical wisdom to be able to deliberate well about what is good and expedient for himself, not in some particular respect, e.g. about what sorts of things conduce to health or to strength, but about what sorts of things conduce to the good life in general. This is shown by the fact that we credit men with practical wisdom...when they have calculated well to some good end. [...] The man who is capable of deliberating has practical wisdom. (1140a9-31).*

### **Equity in relation to justice (*Epikie*):**

For Aristotle equity is better than a certain kind of justice. He argues here along the lines of situation ethics, as he sees the problem

*“that the equitable is just, but not the legally just, but a correction of legal justice. The reason is that all law is universal but about some things it is not possible to make a universal statement that shall be correct; [...] for the error lies not in the law nor in the legislator but in the nature of the thing, since the matter of practical affairs is of this kind from the start. When the*

*law speaks universally, then, and a case arises on it that is not covered by the universal statement, then it is right, where the legislator fails us and has erred by over-simplicity, to correct the omission - to say what the legislator himself would have said had he been present and would have put into his law if he had known. [...] And this is the nature of the equitable, a correction of the law where it is defective owing to its universality.”* (1137b10-28)

Cicero (106-43 B.C.) later reduced the number of virtues to the four cardinal virtues: *prudence, justice, fortitude and temperance*.<sup>104</sup> This was taken over by fathers of the Church such as Ambrose of Milan (339-397) in the context of the *Duties of the Clergy*:<sup>105</sup>

*In the first place they showed prudence, that is exercised in the search of the truth, and that imparts a desire for full knowledge; next, justice, that assigns each man his own, does not claim another's, and disregards its own advantage, so as to guard the rights of all; thirdly, fortitude, that both in warfare and at home is conspicuous in greatness of mind and distinguishes itself in the strength of the body; fourthly, temperance, that preserves the right method and order in all things that we think should either be done or said. (Book 1, Chapter XXIV, 115).*

If we define virtue as the capacity of people to put themselves in the position of others who are affected by

104 See Cicero (1991).

105 Ambrose of Milan (2004).

their decisions by means of a shift in perspective, the *Golden Rule*<sup>106</sup> can then also be assigned to virtue ethics (but then also to duty ethics and consequentialist ethics - an indication of its high value).

A third conclusion: The discourse on desirable character traits and virtues of people who must make decisions that have serious effects on other people and on nature continues to be of general importance, specifically in the field of business enterprise. Only people with firmly established basic ethical attitudes can weigh up the significance that preconceived imperatives for the achievement of a holistically defined utility have for a good life.

Thinkers of the Christian Churches have also made a remarkable contribution in this sphere, referring it to a factor that has lost its power to guide actions in modern society: God.

### 3.5. ACTIONS IN ACCORDANCE WITH CHRISTIAN SOCIAL ETHICS

#### **Contributions of Catholic social doctrine**

When we speak of ethics in the customary sense we

*106 In virtually all cultures at least in its passive sense: "Do not do to others what they should not do to you." In the New Testament, for example Mathew 7,14 in the active version: "Therefore all things whatsoever ye would that men should do to you: do ye even so to them."*

search - as Otfried Höffe has put it - methodically and without any ultimate appeal to political or religious authorities for generally valid statements. Although there are indications that the binding force of Christian values is growing weaker in modern society<sup>107</sup> it would be regrettable if we neglected the body of thought of Christian social doctrine, as it is expressed, for example, in the various social encyclicals.<sup>108</sup>

The text of Genesis (1.27) lays the foundation for all accounts of the Christian image of man. "So God created man in his own image, in the image of God created he him." The rest is exegesis.<sup>109</sup> Mankind is not an "error" (Psalm 139, 16-18), but desired by God when he planned creation. (Eph. 1.11-2). Catholic social doctrine, for example in *Mater et magistra*, also sees God's creation, man, as free and autonomous by nature" (MM63), committed to responsible action and equipped by God with dignity, understanding, freedom of will and a sense of responsibility.

Pope John Paul II supports this view of man in *Redemptor hominis*. (1979 RH) Man is "the only creature on earth that God willed for itself." (RH13). The prominent position accorded to man as the "foundation, the cause and the end of every social institution" (MM 219)

107 Pieper D. (2019).

108 Pontifical Council for Justice and Peace (2005).

109 As I lack the necessary theological knowledge I will not and cannot go into the different understandings of "the image of God in human beings". I am guided here by Martin Honecker's formulation and interpret the theological construct of "the image of God in human beings" as an "upright stance" - see Honecker M. (1990): 49.

gives rise to rights and duties. Men are at all events “required to make their own specific contributions to the general welfare” and to “harmonize their own interests with the needs of others.” (*Pacem in Terris* 53)

As “the source, the center and the purpose of all economic and social life” (*Gaudium et Spes* 63) people have the task in the business sphere of turning the company for which they work into a “true human community” (*MM* 91) This makes man - in spite of all the remaining weaknesses and contradictions<sup>110</sup> - into the most important resource for a thriving human development and for a constructive social life in all its manifestations.<sup>111</sup>

“It is his disciplined work in close collaboration with others that makes possible the creation of ever more extensive *working communities* that can be relied upon to transform man’s natural and human environments. Important virtues are involved in this process, such as diligence, industriousness, prudence in undertaking reasonable risks, reliability and fidelity in interpersonal relationships, as well as courage in carrying out decisions that are difficult and painful but necessary, both for the overall working of a business and in meet-

110 RN 14 for example mentions (with a reference to GS10) that many contradictory elements can be found in man and that he suffers under inner contradiction; see also *Centesimus annus*: “Man tends towards good, but he is also capable of evil. He can transcend his immediate interest and still remain bound to it.” On this point see also the formulation in St Paul’s Epistle to the Romans 7.19 ff: “For the good that I would I do not; but the evil that I would not, that I do. Now if I do that I would not, it is no more I that do it, but sin that dwelleth in me” I find then a law that, when I would do good, evil is present in me.”

111 On this point see also Roos L. (2000).

ing possible set-backs.”(*Centesimus Annus* 32)

“For true Christians cannot help feeling obliged to improve their own temporal institutions and environment. They do all they can to prevent these institutions from doing violence to human dignity. They encourage whatever is conducive to honesty and virtue, and strive to eliminate every obstacle to the attainment of this aim.” (MM 179)

### **Imperatives of the social encyclicals<sup>112</sup>**

All social encyclicals, but particularly *Rerum Novarum*, *Redemptor Hominis*, *Quadragesimo anno*, *Laborem excercens*, *Centesimus annus*, *Sollicitudo rei socialis*, *Cari-tas in Veritate* and *Laudato Si* make excellent contributions to our expertise and orientational knowledge and, what is more, they present it in a clear language.

- Child work in its worst form is under no circumstances legitimate.<sup>113</sup>
- The “factor of work” may not be treated merely as a commodity. People have an absolute value of their own, whereas the economy only has an instrumental value. Hence man is not there for the economy; the economy is there for man.
- A wage rate freely negotiated under conditions of

112 See the Pontifical Council for Justice and Peace (2005).

113 On the important differentiation between child exploitation, child labour and child work see <https://www.savethechildren.net> [last accessed 16.07.2019].

high unemployment will not be considered morally acceptable if it does not satisfy the basic needs of the worker and his nuclear family and respects their inalienable right to a decent and dignified life.

- A “fair” wage and opportunities for participation are basic preconditions for justice in work relationships. Workers enjoy the right to freedom of assembly and association - but also the duty to respect and observe the rights of others.
- Ethics has precedence over technology.
- There are no rights without duties.

All of these demands are today highly topical in the context of both the economic and the ecological aspects of globalization.<sup>114</sup>

A passage from *Paces in terris* (1963), that distinguishes between legal and legitimate action, is no less topical. On the one hand legal action - in the sense of observing the laws of a particular country - contributes to a high degree to the realization of the common good. On the other hand, states sometimes do not only act lawfully but also unlawfully, or the currently valid legal order is deficient, so that the established law cannot be implemented. In such cases citizens and - according to

114 On this point see Greenhouse, St. (2005). This article reports that in New Hampshire, Arkansas and Connecticut systematic violations of the ban on child labour and of the regulations on the security of the workplace occur.

Online under: <https://www.nytimes.com/2005/02/12/us/walmart-agrees-to-pay-fine-in-child-labour-cases.html> [last accessed on 16.07.2019].

our modern understanding also corporate citizens - are called upon to follow their moral conscience in order to “recognize at once what is needed in a given situation and act with promptness and efficiency.” (PT 72)

### **Contributions of Protestant theologians**

Comparable statements can be found in the writings of Protestant theologians. *Helmuth Thielicke* for example, places great value on the direct responsibility of Christians, that cannot be escaped by reference to the system, in the present case for example to “the market” or “global competition:

*“It is totally clear that biblical thought lets all changes begin with the person and not with the circumstances, i.e. the structures. [...]. This is [...] so important because, when “the structure” dominates the anthropology man only becomes important through his role in this structure [...] The “endless value of the human soul”[...] as it exists coram Deo is replaced here by the pragmatic viewpoint of social exploitability or non-exploitability. In Jesus every human being is proximate to God and is worthy of being called by his name.”<sup>115</sup>*

Where people hear this call “the soul recalls their origin in God” and they find “the meaning of life in all its broadness” and hence the “consciousness of their own greatest participation, guilt and responsibility”.<sup>116</sup>

115 *Thielicke H. (1987).*

116 *Barth K. (1920): 21.*

Karl Barth does not restrict Christian responsibility to ecclesiastical or, in the narrower sense, religious issues either:

*Although it may well be evident to us that the state and the economy, the arts and sciences[...] have their own laws of motion and inertia and we may in all seriousness reckon that we will experience the validity of these laws again and again and see clearly that it is folly to bite on granite, one thing is even more clear, namely that we can no longer find ourselves in an ultimate independent validity of these laws.*<sup>117</sup>

But where the laws of motion of the economy no longer enjoy *ultimate independent validity* but only receive the stamp of approval for their legitimacy when they reflect Christian values, decision-makers are faced with a great challenge. It is then impossible “to say ‘yes’ one time and ‘no’ the next time and both [...] in accordance with external chance and internal caprice, but only in accordance with the well tested will of God.”<sup>118</sup>

It is not a question here, as *Emil Brunner* puts it, of the “Pharisaism of wanting to be better”<sup>119</sup>. The point at issue is that man, “the only being to hear God’s call and hence to be accountable to Him”<sup>120</sup>, should act “in accordance with God’s will as it can be recognized in

117 Barth K. (1920).

118 Barth K. (1920): 50.

119 Brunner E. (1978): 43.

120 Brunner E. (1978): 109.

His actions, in His revelations and in the Holy Bible”.<sup>121</sup> “Duties towards man” and “duties towards God” then cease to exist. There is only one duty, to love God. And this one duty, to love God, is also the other, to love one’s neighbor as he is, with the specific demands his existence make upon us.<sup>122</sup>

Christians believe and confess, also in a business context, that they are accepted and loved by God just as they are. It follows that God also loves people we personally find difficult and less lovable just as they are. And it also follows that every Christian must accept such people and respect their dignity however hard this may be. In everyday business life such people are called upon to make their own contributions to the solution of problems. Whereas “being difficult” does not in itself make a valuable contribution to the solution of problems, rebellion against *groupthink* can prevent grotesquely mistaken decisions.<sup>123</sup>

Dietrich Bonhoeffer points to the special responsibility of every individual to accept responsibility for others as they face the challenges of the real, concrete world. This reality is fundamentally different from the abstractions in that people otherwise attempt to meet the demands of ethics.

121 Brunner E. (1978): 107.

122 Brunner E. (1978): 117.

123 Janis I.L. (1982). *Janis attributes the fiasco of the Pigs’ Bay invasion and the disaster of the Challenger space shuttle, among other things, to a pressure for conformity that created a false group dynamics. Examples from the German speaking countries are the Swissair bankruptcy and the “Hitler Diaries”.*

*“The subject of action is no longer the isolated individual but the one who is responsible for other people. The action’s norm is not a universal principal but the concrete neighbor, as given to me by God. The choice is made no longer between a clearly recognized good and a clearly recognized evil; instead it is risked in faith while being aware that good and evil are hidden in the concrete situation [...] Responsible action is neither determined from the outset nor defined once and for all; instead it is born in the given situation. The point is not to apply a principle that eventually will be shattered by reality anyway but to discern what is necessary or commanded in the given situation. One must observe, weigh and judge the matter, all in the dangerous freedom of one’s own self”*<sup>124</sup>

This statement by Bonhoeffer is a clear vote for situation ethical decision-making and action. We will deal with this point in more detail later. As the framework for Christian responsibility Bonhoeffer points to the Sermon on the Mount. It makes people responsible for others. The necessary struggle to search for and make the right decision and the need for steadfastness in implementing what has been recognized as right demands strong convictions - and calls to mind Max Weber’s remark that politics is “a strong and slow boring of hard boards; it takes both passion and perspective”.<sup>125</sup>

Ultimately, however, people who are firmly rooted

124 Bonhoeffer D. (2005): 221-222.

125 Weber M. (1946) 128

in the Christian faith cannot be spared the effort of retrieving the necessary factual and orientating knowledge from the abstractions of the Bible and relating it to the concrete problems confronting them.<sup>126</sup> Furthermore, in complex responsibility situations various and sometimes competing values are often involved that require decision-makers to weigh up the choices and perhaps to opt for the lesser evil. The terse advice of St. Paul "Prove all things, hold fast that that is good" (1 Thess. 5.21) can have extremely demanding implications.<sup>127</sup>

The limitation of this short treatment to the Christian perspective does not mean that other religions provide structurally different directives for action. As Hans Küng and his colleagues from the Global Ethic Foundation have demonstrated, all world religions emphasize the importance of the wellbeing and dignity of man as a basic principle of moral conduct; all see the right of human beings to live their lives with integrity, in freedom and solidarity with others as founded in God's will.<sup>128</sup> We can even draw strength and confidence from this religious certainty, as Karl Jaspers once did: "Man is created by God in his image - no matter how great our despair, this can never be entirely lost."<sup>129</sup>

A fourth conclusion is that people who feel called upon to pursue a way of life guided by Christian values can find numerous references to responsible deci-

126 See Rich A. (1990): 82 ff.

127 Rich A. (1990): 233 ff.

128 Küng H. (1990): 80 ff.

129 Jaspers K. (1949): 716.

sion-making and action in both the social encyclicals and the publications of Protestant theologians. The implementation of these directives - and of those of the corresponding Muslim and Jewish theologians - is the task of all people who wish to advocate morally decent business conduct for religious reasons.

### 3.6. HANS JONAS' IMPERATIVE OF RESPONSIBILITY

Most of the problems arising in everyday business life can be solved by observing current laws and taking into account the statements of the schools of ethical thought presented here. In the case of technological decision processes with incalculable long-term effects, theories restricted to the here and now are insufficient. Here additional considerations presented by Hans Jonas can play a part. Long before knowledge of greenhouse gas and the extinction of species was available he was already convinced that modern technology had led to fundamental change:<sup>130</sup>

*“Modern technology has introduced actions of such novel scale, with new objects and consequences that the framework of former ethics can no longer contain them[...] To be sure, the old prescriptions of the “neighbor” ethics - of justice, charity, honesty and so on - still*

130 Jonas H. (1984)

*hold in their intimate immediacy for the nearest day-by-day sphere of human interaction. But this sphere is overshadowed by a growing realm of collective interaction where doer, deed and effect are no longer the same as they were in the proximate sphere, and that, by the enormity of its powers forces upon ethics a new dimension of responsibility never dreamed of before.* <sup>131</sup>

Whether we classify Hans Jonas' responsibility ethics under duty ethics or virtue ethics in no way effects the influence of his thinking. His directives for action call to mind the ideas of Kant:

*“Act so that the effects of your action are compatible with the permanence of genuine human life on earth”; or, expressed negatively: “Act so that the effects of your action are not destructive of the future possibility of such life [and] in your present choices include the future wholeness of man among the objects of your will.”*<sup>132</sup>

This brings a new dimension to the assessment of the positive and negative effects of actions: the future framework of human life. In view of the fact that concrete knowledge of all the possible long-term effects of decisions and actions is not available and hence future generations could eventually be expected, without being asked, to tolerate things that would be completely inconceivable in the near-term, profound reverence for future life becomes an important criterion. In order to

131 Jonas H. (1984): 6

132 Jonas H. (1984): 11

do justice to this circumstance Jonas appeals to decision makers to follow an ethics of responsibility “that, today after several centuries of post-Baconian Promethean euphoria, has to put a bridle on galloping ahead” and “to pay greater heed to the prophecy of doom than to the prophecy of bliss.”<sup>133</sup> We must be sensitive to worst-case scenarios and develop a “heuristics of fear”. Jonas argues that “the motion once begun takes the law of action out of our hands and the accomplished facts, created by the beginning, become cumulatively the law of its continuation”<sup>134</sup>

This presents even well meaning bearers of responsibility with huge problems. Technological innovation is always ambivalent; new knowledge can always be used for good or for evil purposes. Innovations such as CRISPR-Cas9<sup>135</sup> give rise to the hope that hitherto incurable inherited and infectious diseases can be cured or that it will be possible to breed animals whose organs can be transplanted to human beings without rejection reactions. Plant breeders see in CRISPR the preferred method of genome editing with that crops can be more simply and efficiently improved than with conventional gene technology, and there are many further optimistic ideas on its use. But, as with all potent technologies, the risk and harm potential is considerable. Natural scientists warn about the possible serious side effects of therapies, about uncontrolled harm to the environment and, as the *worst case*, about the possible development

133 Jonas H. (1979): 70 ff and 388; Jonas H. (1984): 26ff, 31,201.

134 Jonas H. (1984): 32.

135 Fischer, L. (2017).

of new biological weapons. CRISPR-Cas9 is the kind of progress described almost 50 years ago by Helmut Gollwitzer: "...a permanent struggle to realize its positive aspects, to survive the dangers accompanying it and to overcome the losses it causes."<sup>136</sup> What is to be understood by "positive aspects" and "danger" will be differently defined in accordance with each person's individual world view and values hierarchy. The establishment of even a minimal consensus on the value of what is won or lost by technological innovation is difficult in pluralistic societies.

Taking responsible action in the field of tension between the need to protect future generations from harm and the desire not to deny them the possible potentially beneficial uses of new technology calls for a strong character and personality. Responsible leaders possess a distinctive willingness to learn permanently, the courage to undertake unorthodox actions, genuine musicality and a tactical sensitivity in the implementation of their decisions.

A fifth conclusion is that, in view of the potential of modern technology and the non-universal ecological footprint of contemporary *business as usual* activities, ethical thinking must take into account consequences that played no part in pre-modern societies

136 Gollwitzer H. (1985): 142.

3.7.  
ACTIONS INVOLVING NORMATIVE  
CONSENSUS: DISCOURSE ETHICS

It is necessary to enter more deeply into discourse ethics, as it not only provides helpful procedural hints for the solution of complex problems in modern society, but also makes generally valid statements on integrity in transactions under the conditions of international competition. In the last three decades the binding nature of norms based on specific religious traditions has diminished at the global level, particularly in modern pluralistic societies.<sup>137</sup> The experience of cultural diversity has grown significantly and with it the range of ideas about what can be understood to be “a good and proper life”. The global significance of the “Western” viewpoint, that was dominant until well into the 1990s, has declined. Furthermore, as a result of the growing impact of economic globalization, the complexity of chains of action has increased and new, highly potent technologies have, as Hans Jonas predicted, thrown up completely new questions.

Discourse ethics, mainly developed in the German speaking countries by Hans Apel<sup>138</sup> and Jürgen Habermas<sup>139</sup>, postulates that answers to questions of the legitimacy and bindingness of ethical statements and moral

137 See the poll by Kantar Public commissioned by the Spiegel: (April 2019) <https://www.spiegel.de/panorama/gesellschaft/christen-an-ostern-immer-weniger-deutsche-glauben-an-gott-a-1263630.html> [last accessed on 16.07.2019].

138 Apel K.-O (1990)

139 Habermas J: (1984); Habermas J.. (1990); Habermas J.. (1993); Habermas J. (1996); Habermas, J. (1998). .

claims to validity can be found with the help of structured discourse. Mature people who endeavor to reach an understanding by searching for a consensus should exchange rational arguments and justifications for as long as is necessary until the moral norms under discussion find the consent of all participants or at least until a consensus is achieved on the preference for one form of action over another.

Many of the transnational problems (e.g. climate change, the reduction of biodiversity or the struggle to stop the spread of diseases such as Covid19) cannot be solved by interventions of the individual states. In a world that is becoming ecologically, economically socially and culturally more and more closely intertwined the places and institutions in that decisions are taken coincide more and more seldom socially and territorially with the persons and areas affected by the consequences of decisions.

As Jürgen Habermas remarked with foresight over 20 years ago, the balance in increasingly globalized markets has clearly shifted to the disadvantage of autonomy and of the economic and political room for maneuver of the state actors.<sup>140</sup> As a consequence of these changes Habermas saw a “legitimation gap” that was partly compensated for by the “practices of a decentralized, multilevel politics alongside or below the level of the UN”, but could ultimately only be closed by the public

140 Habermas, J (2001) 60ff.

discursive formation of opinion and will.<sup>141</sup>

At the beginning of the 70s of the last century Karl-Otto Apel presented a similar argument from a different perspective. He wrote:

*“On the one hand the need for a universal ethics, i.e. one that is binding for human society as a whole, was never so urgent as now...On the other hand, the philosophical task of rationally grounding a general ethics never seems to have been so difficult as it is in the scientific age.”*<sup>142</sup>

For the first time in the history of the species human beings are faced with the task of taking on solidary responsibility for their actions at a planetary level.

As the value and goal preferences that remain at the individual level of questions of conscience would only be morally binding for those individuals who make decisions on the basis of their conscience, an ethics of responsibility is necessary that is founded upon the *intersubjective validity* of norms. An ethical principle that is not both normatively binding and inter-subjectively valid can in principle possess no claim to validity beyond the private sphere.<sup>143</sup>

Under the changed framework conditions of a secular, pluralistic and globally oriented society answers to

141 Habermas, J (2001): 70-71.

142 Apel K.-O. (1980): 226. This is so, according to Apel, “because in our time the notion of intersubjective validity is also prejudged by science, namely by the scientific notion of normatively neutral or value free’ objectivity” Ibid.

143 Apel K.-O (1980): 239

the questions “Why be moral” and even more so “That and whose moral norms have a claim to validity?” require, according to Apel, a new justificational rationality for what is to enjoy inter- subjective recognition. This could no longer be found monologically by one actor with a claim to legitimacy, no matter how well-educated and intellectual that person may be. Instead cooperative discursive endeavours are called for. The “justification of the ‘ought’-claims” should be the result of reflective insight of the persons participating in the discourse.

### **Discourse ethics as a moral philosophical model**

Discourse ethics assumes that the normative validity of forms of action can be rationally justified. What all the participants in a discourse can wish for is regarded as universalizable. People might be ready to conclude contracts on account of their strategic rationality, but on the basis of strategic considerations alone they cannot be prevented from breaking contracts when it suits their purposes and they have no reason to fear sanctions. The decision of the US American president Donald Trump to revoke one-sidedly the labouriously negotiated Paris Climate Agreement is a current example and the one-sided withdrawal from the Iranian Nuclear Deal provides another.

A normative order cannot be permanently stabilized either by interdependent interests or by strict threats to impose sanctions. “It is dependent on an unforced

recognition by the addressees”,<sup>144</sup> Action norms deserve social recognition when they “rightly” exist according to the majority of the participants in an action. But as, according to Habermas, this is not readily apparent, the norms must find the well-considered approval of all the addressees under conditions of rational discourse.

According to Karl-Otto Apel the general validity of arguments assumes the existence of a “community of thinkers who are capable of both intersubjective understanding and reaching a consensus”<sup>145</sup> The “consensual communicative rationality” this gives rise to creates agreement on rules or norms that lie beyond the “calculated self-interest” of the individuals involved. As the validity of the achieved agreement is recognized by all it must no longer be implemented by force. Nor is there any appeal to standpoints that lie outside the sensual world of human experience and refer to beliefs for their ultimate grounding.

What is morally right is established in a discourse in that people argue convincingly with one another. The justifications presented resolve the (ideal typical) dissent on the truth of the assertions made or the acceptability of controversial claims to validity with the help of rational arguments. This is also possible when the participants in a discourse have different and partly conflicting rights and duties, whose existence can lead to

144 Habermas J. (2009): Vol. 3, 11. (Own translation from the Introduction to the German study edition)

145 Apel, K.-O (1980): 258

normatively perceived action conflicts.<sup>146</sup>

According to Apel the argumentative rationality of inter-subjectively valid thinking cannot in principle be concerned with the strategic instrumental rationality of a single thinking subject. It must, rather, in principle assume the possibility of consensus formation between equal members of an unlimited argument community.<sup>147</sup> Conflicts of interest - or other conflicts between people - should not, according to Apel, be regulated by means of strategic negotiations as these can lead - for example through existing power constellations - to the suppression of justified interests. Instead they should be regulated by argumentative discourse in that the justified interests of all participants can be put forward. Under these circumstances the participants will be capable of reaching a consensus on the expected consequences of conflict regulation.

According to Habermas anyone who seriously attempts to establish normative validity claims by means of discourse intuitively accepts procedural conditions that correspond to a "principle of universalization". This states that action norms can only find (inter-subjective) acceptance when the consequences that probably result from the general observance of the controversial norm for the satisfaction of the interest of each individual are accepted without coercion by all the participants and can be preferred to the effects of alternative regulatory

<sup>146</sup> Habermas, J. (1993): 32

<sup>147</sup> Apel, K.-O (1990): 255ff..

possibilities.<sup>148</sup> In this ideal situation *all* the relevant claims of *all* the persons involved are equally taken into account. According to Habermas' *discourse ethical principle*, therefore:

*"Only those norms can claim to be valid that meet (or could meet) with the approval of all affected in their capacity as participants in a practical discourse"*<sup>149</sup>

Neither Jürgen Habermas nor Karl-Otto Apel want "the discourse universe" or "the community of competent communication partners" to be limited in an arbitrary fashion. Karl Otto Apel demands that in principle all claims of the communication partners on one another must be recognized, with the reservation, however, that they turn out to be compatible with the claims of all the other members of the communication community.

*"As argumentatively acceptable claims in this sense...all the individual interests or needs can be accepted as valid that are compatible with those of all the other participants."*<sup>150</sup>

148 See Habermas J. (1990): 65. This is a substantial reformulation of Kant's categorical imperative, that postulates that one should act in accordance with a maxim that can at the same time have the validity of a universal law. In discourse ethics what everyone, without contradiction, could want as a universal law can be regarded as valid. I must, therefore, present my maxims for the purpose of a discursive testing of their claim to universality to all others (and not merely to myself). I will come back in more detail on the difficulties involved in implementing this principle in the context of business enterprises and their stakeholders later.

149 Habermas, J. (1990) 66

150 Apel K.-O (1990): 37ff. Apel is aware of the dimensions of this demand and notes that it goes far beyond the formal ethics of Kant's categorical

When such a line of argument is applied in practice to entrepreneurial stakeholder dialogues the difficult question arises as to how and within what time frame this “compatibility” can be established. Going from my own experience, I fear that both the application of the universalization principle and of the discourse ethical principle of the “agreement of all participants” is impossible for business activities under the conditions of global competition, even for the most enlightened leading personalities in the business world.

My experience also suggests that the assessment of the capacity of participants in discourse ethical discussions to make moral judgments is based on far too optimistic and even ideal typical assumptions. Both Apel and Habermas assume, with reference to Lawrence Kohlberg’s “stages in the development of moral judgment”<sup>151</sup>, that the actors have reached the level of post-conventional morality and hence as a matter of course apply universal moral principles out of conviction and in all circumstances.<sup>152</sup> Discourse ethically determined communicative action assumes that

*“the actions of the agents involved are coordinated not through egocentric calculations of success but through acts of reaching understanding. In communicative*

*imperative. It not only requires that the maxims of each individual must be in accordance with universal law. It must also ensure a “deliberation free of repression” in that a consensus can be reached on all the substantial claims of all the members of the communication community.*

151 See Kohlberg, L. (1984); see also Kohlberg, L. (1987)

152 See for example Habermas, J. (1990): 119-133, here 124.

*action participants are not primarily oriented to their own individual successes; they pursue their individual goals under the condition that they can harmonize their plans of action on the basis of common situation definitions.*"<sup>153</sup>

The negotiation of situation definitions is also a part of communicative action, as the participants in the discourse, when making their claims to the validity (claims to truth, rightness and truthfulness), also refer to what is anchored in their specific life world and hence determines the situation definitions they perceive to be right.

According to the theory problems founded on normative differences can be solved by the powers of persuasion of good arguments. Apart from the "force of the better arguments" all coercion operating from outside the communication process is excluded. For both Apel and Habermas it is important that all affected persons participate directly in the discourse as "nothing better prevents others from distorting one's own interests than actual participation."<sup>154</sup> In regard to stakeholder dialogues, therefore, the delegation of participation to communication experts, public affairs staff or representatives of the legal department would not be in conformity with discourse ethics. The assumption that staff at the

153 Habermas J. (1984): 285-286.

154 Habermas, J. (1990): 67. Karl Otto Apel is less strict when he proposes, in a kind of thought experiment, that members of a communication community living today who are capable of discourse can bring possible problems of members who will exist in the future into the discourse as their advocates. See Apel K.-O (1990): 202

middle management level would observe discourse ethical ideal principles<sup>155</sup> and seek agreement with communicative understanding is not very realistic. Where there is a struggle to defend prescribed interests by means of structured strategic business arguments conditions prevail that have nothing in common with discourse ethics.

### **The ideal communication community and the rules of discourse**

A central concern of discourse ethics is what Habermas calls “the ideal speech situation”<sup>156</sup> and Apel “the ideal communication community”<sup>157</sup> These two concepts are of a more theoretical or idealistic nature, in regard to both business and political everyday life. Habermas took over the preconditions for argument developed by Robert Alexy in legal discourse theory.<sup>158</sup> What is of interest here is goes beyond matters of course at the logical semantic level (e.g. speakers should not contradict themselves or use the same expression with different meanings) or the need to recognize the soundness of mind and honesty of all participants. What matters is the equal opportunity for participation of all competent speakers and the symmetry of their

155 For example: “Always act as if you were a member of an ideal communication community!”

156 For a detailed treatment see Habermas, J. and N. Luhmann (1971): 136ff.

157 See for example, Apel K.-O (1990): 36ff. In an ideal communication community “the communication of meaning and consensus formation on claims to truth must in principle be possible”

158 Alexy R. (1983). Reference in Habermas, J. (1990): 87-88.

rights and duties.

The discrepancy between discourse ethical theory and political and business practice becomes particularly evident when the basic elements of an ideal communication community are pointed out.

- All subjects capable of speech and action who are able to present arguments may, without exception, take part in discourse.
- Systematic distortions of communication must be excluded. Instead a systematic distribution of the opportunities to speak must ensure that all participants can make contributions to the discourse and can present their own arguments, interpretations, assertions, explanations and justifications. No “pre-conceived opinion” may permanently escape thematic and critical questioning - everything is up for discussion. Only under these circumstances “can the unforced force of the better argument prevail, that permits an expert methodical testing of assertions and rational motivation of decisions on practical issues”.<sup>159</sup>
- No speaker may be prevented from exercising his rights as a result of coercion within or outside the discourse; no repression, however subtle or veiled, is permitted. Communication is “free of domination”, i.e. no attempt is made to impose validity claims to the truth by dominant participants. This implies that the participants in communication should not

159 Habermas, J. and N. Luhmann (1971), 137.

measure the success of the discourse by the assertion of their own interests (Habermas' "egocentric calculation of success" or Apel's "calculated self-interest") but should pursue their individual goals on the condition that their plans of action have been coordinated on the basis of shared definitions of the situation. In other words: The discourse participants are capable of learning and are able and willing, if need be, to abandon problematic validity claims.<sup>160</sup>

- Speakers must not deceive themselves or others on their intentions. Privileged positions in the sense of one-sidedly binding norms of action are excluded. Consequently, the removal of obstructions to communication is necessary, for example by ensuring a timely exchange of information, so that an equal state of knowledge among all participants can be assumed. Truth, rightness and truthfulness of the statements made are indispensable.

One point is of particular importance for economic and political communication: truthfulness also means that after a consensus has been achieved the participants must act coherently and consistently in accordance with the norms. Dialogues without any "pre-communicative action intention"<sup>161</sup> are impermissible. Their goal would not be a change in practical action but the winning of

160 Habermas, J. (1984) 285ff. Habermas here refers several times to Lawrence Kohlberg's "stages of moral development" and particularly to the level of "post-conventional morality" at that people apply universal moral principles out of personal conviction. See Kohlberg, L. (1984) and Kohlberg, L. (1987).

161 Habermas, J. (1984): 280

time for the controversial status quo.

In Karl-Otto Apel's ideal communication community all the members recognize one another as equal discussion partners and commit themselves to justifying their own claims with rational arguments. The members of this communication community are obliged, according to Apel, to take all potential claims of all potential members into account, that is to say, all human needs in as far as they can make claims on fellow human beings. Karl-Otto Apel sees the sense of moral argumentation precisely in the principle of making all those needs a concern of the communication community that can in the process of argumentation be reconciled with the needs of all others.<sup>162</sup>

### **The problem of implementation**

In awareness of natural human inadequacies but also of objective constraints (such as lack of resources and given social framework conditions) Karl-Otto Apel touches on a problem that is of central importance in stakeholder dialogues, and not only there, namely that

*“every participant in a discussion necessarily presumes, on the one hand, the existence of an ideal speech situation and an ideal communication community, but, on the other hand, knows perfectly well, as a matter of common sense, that he and his partners cannot live*

162 Apel, K.O. (1980): 277.

*up to this assumption in regard to their competence or their convictions.*<sup>163</sup>

Apel admits that his ideal communication community is based on *idealized* preconditions that do not recognize

*“that it is not only moral difficulties that must be considered when the moral discussion is institutionalized, but rather the fact that this institutionalization must be realized in a concrete historical situation that has always been determined by the conflict of interests.”*<sup>164</sup>

In other words: Even if the participants in a discourse possessed a full understanding of the discourse ethical moral principle and followed it, they would still be bound within their *real* social position and situation and hence within a specific constellation of interests.

For this reason Karl-Otto Apel understands discourse ethics as a “two stage ethics”, whereby in the first stage the “formal procedural principle of argumentative consensus formation” and in the second stage “all content related theses on the grounding of norms and the legitimation of norms and all assumptions about preconditions” must be treated.”<sup>165</sup>

Apel sees problems of implementation above all where Habermas’ maxim of universalizability must be

163 Apel, K.-O. (1990): 38.

164 Apel, K.-O. (1980): 278

165 Apel K.-O (1990): 271.

applied concretely in publicly effective (e.g. economic or entrepreneurial) action. In practice even the fundamental moral problem of the reasonableness of the application of a post-conventional discourse ethics arises.<sup>166</sup> In the application of discourse ethics to economic activities two specific difficulties occur, according to Apel, namely:<sup>167</sup>

- those that result from the necessity of mediation between different types of action rationality of different social part-systems and
- those involving the internal system rationality of the complex social part-system “the economy”, that cannot simply be reduced to the various types of action rationality.

If one were to interpret discourse ethics as responsibility ethics it would not be possible to ignore the element of knowledge of the effects and side effects of actions. The cost of resources is a crucial factor in the social part system of the economy when we are dealing with the realizable of situationally determined moral norms as equally valid parts of the discourse. Although, according to Apel, neither the economy nor philosophical ethics have a paternalistic function, it is nonetheless also the case that the basic principles of ethics should not be reduced to the interest of individuals in a maximization of benefits and a minimization of costs, other-

166 Apel K.-O (1990):124. (My italics: KML) “Postconventional is here defined as a morality that enables various forms of life and hence also of ethos to live and work together on the basis of a moral principle recognized by all because it results from a consensus achieved in a discourse ethical process.”

167 Apel K.-O (1990): 270

wise the grounding of philosophical ethics itself would be made dependent upon knowledge deriving from the economy.<sup>168</sup>

Apel introduces to his line of argument a value judgment corresponding to a concept of the market economy: The principle of utility maximization - specifically the maximization of overall utility - should be taken into account, without however abandoning the "primacy" of justice and solidarity.<sup>169</sup>

An absolute economy that makes decisions without taking ethical norms into account would not meet the requirements of a scientific understanding of economic action (quite apart from the question of its public acceptability). The result would be forms of action that *exclusively* follow the rationality of the *homo oeconomicus*. Cooperation would then only be justifiable when all the interests coincide. But Apel (and with him all enlightened people) sees this as humanly and socially intolerable.

According to Apel the validity of morals should not be measured by individual or group interest (e.g. the interest of managers or business enterprises) but by the interests of all participants in a decision reached by all on an equal basis in the discourse of an ideal communication community.

*What is at issue here is not a utilitarian grounding of morality by recourse to the strategically calculated*

168 Apel K.-O (1990): 275

169 Apel K.-O (1990): 273

*self-interest of individuals, but grounding by recourse to a formal procedural universalization principle that, as a principle of justice and responsibility, takes the interests of all concerned parties into account - with, of course, the assistance of the economy.* <sup>170</sup>

Discourse rationality, that differs in principle from instrumental and strategic rationality, is impossible to circumvent, as it is not possible to decide who is in the right by means of negotiation or suggestive persuasion of others. One must clearly distinguish between the problem of the intelligent application of norms to complex situations and the establishment of the social conditions for their application.

*“In conventional morals, that are also always the internal morals of systems of social self-assertion, the problem of applying norms is actually only a matter of the intelligent assessment of the situation in the sense of Kant’s ‘determinative power of judgment’, as the conditions for the application of morals arose, so to speak, together with morality within the framework of a socio-cultural life form. The situation is completely different in the case of the political or economic application of the universal principle of discourse ethics. For this must refer to conditions in the present in that the social conditions of their application have by no means been realized - in spite of the universalistic ingredients of our*

170 Apel K.-O (1990): 280

*modern legal systems.* <sup>171</sup>

Here Karl-Otto Apel brings into play Max Weber's distinction between ethics of conviction and responsibility ethics<sup>172</sup>: a responsible actor who, in view of present-day conditions, assumes that an ideal-typical ethical communicative rationality is prevalent does not to justice to his obligations from the standpoint of responsibility ethics. Only "an adept of a pure ethics of ultimate ends" [i.e. ethics of conviction] could become a victim of the illusion of a possible new beginning in history

*"because he does not take on responsibility for the concrete consequences of his actions. According to responsibility ethics, however, one must draw upon the historical situation [... and attempt] to 'mediate' between the ethical communicative rationality of the ideal principle of discourse ethics in all real situational contexts [...] and the strategic rationality of the success-oriented instrumentalization of the others.* <sup>173</sup>

171 Apel K.-O (1990): 295

172 On this point see Weber M. (1946): 120-121. For Weber conduct that follows the "maxim of an ethic of ultimate ends"[ethics of conviction] can be expressed in religious terms as: "The Christian does right and leaves the results with the Lord."...If an action of good intent leads to bad results then in the actor's eyes not he but the world, or the stupidity of other men, or God's will, who made them thus, is responsible for the evil. However, a man who believes in an ethic of responsibility takes account of precisely the average deficiencies of people...he does not even have the right to presuppose their goodness and perfection. He does not feel in a position to burden others with the results of his own actions so far as he was able to foresee them. He will say: these results are ascribed to my action.

173 Apel K.-O (1990): 298

When this is applied to entrepreneurial stakeholder dialogues, it seems to me permissible to assume that under the existing circumstances (that are imperfect according to discourse ethics) an entrepreneur cannot replace his monologist and quasi utilitarian responsibility by a consensus achieved in dialogue with all claimant groups - but he can supplement it from case to case.

If the social environment of an actor is characterized by strategic instrumentally rational forms of interaction there is a danger that one-sided idealistic action could endanger the capacity of the actor himself for self-assertion.<sup>174</sup> Where the participants in a discussion have justifiable reasons to mistrust the norms guiding the actions of the opposite party a strategic representation of interests occurs in that the holding of an opinion or the pursuit of a form of action is insinuated or in that, if need be, the opposite side is simply deceived.<sup>175</sup> The participants on both sides are then faced with the difficulty of distinguishing and mediating between the moral demand to observe specific norms and the need to evaluate the specific context of action. In the best case a compromise is made between ethical rationality in the sense of Habermas' universalization principle and strategic rationality in the sense of "the internal morals of

*174 On this point see Homann K. (2014).*

*175 Apel K.-O (1990): 129 Apel draws a comparison with disarmament negotiations: "The paradox of disarmament negotiations [...] is that even two adversaries who would be willing in principle to make a rational new start on the basis of discourse ethics cannot know for sure and may not assume that the other side shares this willingness"*

the social system of self-assertion”

Apel sees the solution of the problem that discourse ethics *counterfactually* assumes the existence of an ideal communication community in an “interim ethics” of transition from the existing conditions to the realization of the conditions for the application of discourse ethics. To this end Apel sets up a “moral strategic supplementary principle” alongside the principle of universalization. He insists that in “serious discussions” we implicitly recognize the universalization principle and apply it in the solution of conflicts of interest in the life world. The precondition is, however, that the application conditions are also *reasonable* in the sense of a responsibility ethics. It is a moral duty of all actors to work for a reduction of the difference between what would be right in terms of discourse ethics and what is necessary from the perspective of conflicts of interest in the life world.

Jürgen Habermas was also aware from the start of the problems involved in applying discourse ethics. Apart from the fact that consensus can often not be achieved in fundamental moral questions, it is obvious that in a *society based on the division of labour* different actors have different tasks, rights and duties, and deviating and partly conflicting interests. It is, consequently, normal in pluralistic societies that moral discourses lead to a dissent on rights and duties. However, this is not an insuperable problem. The discourse ethical principle is not a procedure

*“for generating justified norms but a procedure for test-*

*ing the validity of norms that are being proposed and hypothetically considered for adoption. That means that practical discourses depend on content brought to them from outside. It would be utterly pointless to engage in a practical discourse without a horizon provided by the life world of a specific social group and without real conflicts in a concrete situation in that the actors consider it incumbent upon them to reach a consensual means of regulating some controversial social matter Practical discourses are always related to the concrete point of departure of a disturbed normative agreement. These antecedent disruptions determine the topics that are up for discussion.”*<sup>176</sup>

Jürgen Habermas points at an early stage to problems that, as experience shows, come up in stakeholder dialogues:

*“As interests and value orientations become more differentiated in modern societies, the morally justified norms that control the individual’s scope of action in the interest of the whole become even more general and abstract. Modern societies are also characterized by the need for regulations that impinge only on particular interests. While these matters do require regulation, a discursive consensus is not needed; compromise is quite sufficient in this area. Let us keep in mind, though, that fair compromise calls for morally justified procedures of compromising.”*<sup>177</sup>

176 Habermas J (1990): 103

177 Habermas J. (1990): 205

For business activities Habermas proposed an important link between values and instrumental rationality: "Value oriented assessments of ends and purposive assessments of available means facilitate rational decisions concerning how we must intervene in the objective world in order to bring about a desired state of affairs. This is essentially a matter of settling empirical questions and questions of rational choice..."<sup>178</sup> The "desired state" no longer stands alone as an isolated (e.g. economic) ideal but is also determined by the available means and other considerations (such as customary norms)

A sixth conclusion is that in pluralistic societies in particular grounding of norms can no longer be found in a monologue fashion when dealing with complex problems in an international context. Instead cooperative discursive endeavours are called for, whose outcomes are acceptable to all participants.

Finally, an important procedural point in regard to the application of the moral imperatives sketched here.

### 3.8.

#### SITUATION ETHICS

Advocates of situation ethics deny the existence of absolute, universally valid moral norms and values, whose application always leads under all circumstances to responsible, ethically acceptable decisions. In view of the uniqueness of every individual and the specific

<sup>178</sup> Habermas J. (1993): 8

nature of every concrete decision situation the validity of the insights of all ethical schools of thought must be tested in each specific circumstance. Situation ethics does not present new dogmas or norms; it places the procedural questions involved in decision-making in the foreground. This will be illustrated in the present context by statements of two prominent representatives of situation ethics: Joseph Fletcher<sup>179</sup> and Dietrich Bonhoeffer<sup>180</sup>

## Joseph Fletcher

For Joseph Fletcher the traditional ethical orientation systems are legalistic and apply predefined decision paths to all different kinds of possible situations. This, however, does not do justice to reality with its multiplicity of life situations. According to Fletcher ethical decisions cannot be taken on the basis of a rigid system of norms but only in the context of a specific given situation:

*“Statutory and code law inevitably piles up, ruling upon ruling, because the complications of life and the claims of mercy and compassion combine [...] to accumulate an elaborate system of exceptions and compromise, in the form of rules for breaking the rule!”<sup>181</sup>*

If people took this path they would be blind to-

179 Fletcher J. (1966).

180 Bonhoeffer D. (2005).

181 Fletcher J. (1966): 18.

wards the realities of life and its sufferings and pains - in the name of justice even the end of the world would be accepted. Absolute commandments and prohibitions do not do justice to multilayered reality. What is good or evil, right or wrong depends on the specific circumstances; the necessary end justifies the necessary means.

The situationist approaches every decision “fully armed with the ethical maxims of his community and his heritage and he treats them with respect as illuminators of his problems.”<sup>182</sup> When required by the situation he can, however, compromise them or set them aside if love seems to be better served by doing so. The use of the concept of love is rather unusual in the context of business activities and meets with instinctive resistance.<sup>183</sup> The concept of love reduces an enormous complexity, thereby concealing an almost endless variety of ideas.

Fletcher understands love in the sense of *agape* and hence of an altruistically practiced attitude towards the wellbeing of others. What is at issue - as in the arguments presented by Erich Fromm<sup>184</sup> - is an attitude of conscience, not feelings; what counts is *benivolentia* and unconditional love of one's neighbor, even when we do not like this neighbor. If, on the basis of intelligence and factually correct information, solutions are found with this attitude that violate established commandments and prohibitions, these solutions are, from the perspec-

182 Fletcher J. (1966): 26.

183 For more detail on this point see Leisinger K. (2018).

184 Leisinger K. (2018).

tive of the situationist, nonetheless right:

*“What acts are right may depend on circumstances... but there is an absolute obligation to will whatever may on each occasion be right. We are only “obliged” to tell the truth, for example, if the situation calls for it; if a murderer asks us his victim’s whereabouts, our duty might be to lie. There is in situation ethics an absolute element and an element of calculation... But it would be better to say it has an absolute norm and a calculating method... Situation ethics aims at a contextual appropriateness - not the “good” or the “right” but the fitting.”<sup>185</sup>*

The concrete situation is decisive for the judgment of each particular case:

*“The general is given in the particular and the verification of the abstract is in the concrete... [This means] that in actual problems of conscience the situational variables are to be weighed as heavily as the normative or “general” constants. The situational factors are so primary that we may even say “circumstances alter rules and principles.”<sup>186</sup>*

Situation ethics makes use of the complete range of philosophical insights as direction and guidance helping us to distinguish between what is right or wrong - but not as laws that must be unconditionally followed.

In his treatment of ethics Fletcher does not go into

185 Fletcher J. (1966): 27-28.

186 Fletcher J. (1966): 29.

business affairs, but what he says is, however, valid for the guidelines and ethics codes of companies. Platitudes presented with noble words and fine graphics are of no help in concrete problematic situations. Values presented as binding are also not valuable in themselves but only as the level of reflection in a specific situational context.

*“Situation ethics puts people at the center of concern, not things. Obligation is to persons, not things; to subjects, not objects. [...] The situationist is a who asker (Who is to be helped?) That is, situationists are personalistic [...] Value is relative to persons and persons are relative to society, to neighbors. An I is an I in relationship with a You.”<sup>187</sup>*

As Joseph Fletcher is profoundly committed to Christian social ethics, he has a particular image of man - that would however place far too great a demand on most people. From this perspective people must always act out of love. What that should look like specifically depends on a responsible assessment of the situation:

*“Christian situation ethics has only one norm or principle or law...that is binding and unexceptionable, always good and right regardless of the circumstances. That is “love” - the agape of the summary commandment to love God and the neighbor. Everything else without exception, all laws and rules and principles and norms are only valid if they happen to serve love in any situation. Christian situation ethics is not a system*

187 Fletcher, J. (1966): 50

*or program of living according to a code, but an effort to relate love to a world of relativities through a casuistry obedient to love. It is the strategy of love. [...]*<sup>188</sup>

Against the background of this central guideline for action the judgment of a certain action (for example the theft of medicaments) always depends on the circumstances (for example the sole possibility to avert an avoidable death or resale for profit) with that a maximum of compassion can be achieved. Of course, the means applied to implement decisions must also be adequate and correspond to the criteria of *agape*.

People matter, not principles. This personalizes Christian situation ethics. “[W]hen the impersonal universal conflicts with the personal particular the latter prevails in situation ethics.”<sup>189</sup> After a problem has been recognized and defined situation ethicists put the following questions in every constellation:

1. What is the aim? What do we want? What are we striving for? What outcomes do we wish to achieve?
2. What should be the means adopted to reach the end?
3. What is the motive? What is the driving force? What desires lie behind an action?
4. What effects will be achieved directly or indirectly by the action within the framework of the problem? What are the mediate and immediate consequences

<sup>188</sup> Fletcher (1966): 30

<sup>189</sup> Fletcher J. (1966) 30-31; 50.

when we know that there are always more results than the end alone and that they all must be taken into account.<sup>190</sup>

The question why I do something, the obligation - out of love - is absolute. Only the how is relative because it depends on the situation. At the end of his book Fletcher quotes John Dewey's and James Tufts' book *Ethics*<sup>191</sup> making a statement that should always be called to mind when considering moral philosophical discourse in the context of business actions.

*"Of one thing we may be sure. If enquiries are to have any substantial basis, if they are not to be wholly up in the air, the theorist must take his departure from the problems that men actually meet in their own conduct. He may define and refine these; he may divide and systematize, he may abstract the problems from their concrete context in individual lives; he may classify them when he has detached them; but if he gets away from them he is talking about something that his own brain has invented, not about moral realities."*<sup>192</sup>

We also find situation ethicists among prominent Protestant theologians.

## **Dietrich Bonhoeffer**

Dietrich Bonhoeffer has also dealt with the ques-

190 Fletcher J. (1966):128-129; see also 144.

191 Dewey J. and J. H. Tufts (1909).

192 Quoted by Fletcher J. (1966): 159.

tion of the procedure to be undertaken in unusual and complex problematic situations:

*The question of the good must not be narrowed to investigating the relation of actions to their motives or to their consequences, measuring them by a ready-made ethical standard. An ethic of disposition or intention is just as superficial as an ethic of consequences. For what right do we have to stay with inner motivation as the ultimate phenomenon of ethics, ignoring that "good" intentions can grow out of very dark backgrounds in human consciousness and subconsciousness, and that often the worst things happen as a result of "good intentions"? As the question of the motives of action finally disappears in the tangled web of the past, so the question of its consequences gets lost in the mists of the future.*<sup>193</sup>

Bonhoeffer's thinking, like Fletcher's, is characterized by deep faith: The "reality of God" determines what is good and not "that that serves reality usefully and purposefully"<sup>194</sup> In turn, God's will is "nothing other than the realization of the Christ-reality among us and in our world."<sup>195</sup> Bonhoeffer rejects the fulfillment of duties on the basis of commands - shaped as his thinking was by the inhuman reality of Nazi Germany:

*"The person in command bears responsibility for the order, not the one who carries it out. However, those who limit themselves to duty will never venture a free action*

193 Bonhoeffer D. (2005): 52.

194 Bonhoeffer D. (2005) 53.

195 Bonhoeffer D. (2005): 74.

*that rests solely on their own responsibility, the only sort of action that can meet evil at its heart and overcome it. People of duty must finally fulfill their duty even to the devil [...]*

*Those, however, who take their stand in the world in their very own freedom, who value the necessary action more highly than their own untarnished conscience and reputation, who are prepared to sacrifice a barren principle to a fruitful compromise or a barren wisdom of the middle way to a fruitful radicalism, should take heed lest precisely their presumed freedom ultimately causes them to fall.”<sup>196</sup>*

In regard to business activity he also asserts that pure ideology and strict observance of formal laws can be inappropriate in the context of extraordinary situations:

*“There are occasions when, in the course of historical life, the strict observance of the explicit law of a state, a corporation, a family, but also of a scientific discovery, entails a clash with the basic necessities of human life. In such cases appropriate responsible action departs from the domain governed by laws and principles, from the normal and regular, and instead is confronted with the extraordinary situation of ultimate necessities that are beyond any possible regulation by law.”<sup>197</sup>*

**This is not a call to dispense completely with any**

196 Bonhoeffer D. (2005): 79.

197 Bonhoeffer D. (2005): 272-273.

kind of law. Extraordinary situations are borderline cases. They no longer offer human reason a number of avenues of escape but present it with the question of an ultima ratio.

In such situations there is no law behind that the responsible person “could take cover. [...] Instead...one must completely let go of any law...the commandment is broken out of dire necessity”. This must be decided as a free venture in the knowledge that “one becomes guilty and is able to live only by divine grace and forgiveness.”<sup>198</sup>

Bonhoeffer explains this statement with a reference to Kant’s demand for an unconditional prohibition of lying:

*“I come into conflict with my responsibility that is grounded in reality when I refuse to become guilty of violating the principle of truthfulness for the sake of my friend, refusing in this case to lie energetically for the sake of my friend [...] refusing in other words to take on and bear guilt out of love for my neighbor. Here as well a conscience bound to Christ alone will most clearly exhibit its innocence precisely in responsibly accepting culpability”.*<sup>199</sup>

For people who wish to do justice to their responsibility in a specific situation the correct conduct is,

198 Bonhoeffer D. (2005): 274.

199 Bonhoeffer D. (2005): 280 - 281.

therefore, never determined beforehand as a matter of principle, but arises in the given situation:

*“They do not have at their disposal an absolutely valid principle that they have to enforce fanatically against any resistance from reality. Instead they seek to understand and do what is necessary or “commanded” in a given situation [...] The goal is not to realize an “absolute good”. Instead the self-denial of those who act responsibly includes choosing something relatively better over something relatively worse and recognizing that the absolute good may be exactly the worst. Responsible people are not called to impose a foreign law on reality. On the contrary their action is in the true sense “in accord with reality.”*<sup>200</sup>

What Bonhoeffer means by “in accord with reality”, is, however, “in accordance with Christ” and therefore makes too great a demand on normal people in everyday life. Tragic situations arise, according to Bonhoeffer, when people are confronted by a collision of contradictory laws and perish because they are guilty regardless of the choice they make and because the “lesser evil” is also an unacceptable evil for them.

In the present-day business world, however, the situation is considerably less gruesome than it was for the people persecuted in Germany during the Nazi terror or for the figures in Greek tragedies<sup>201</sup>. In modern business

200 Bonhoeffer D. (2005): 261.

201 Sophocles' *Antigone* is particularly dramatic in this regard. *Antigone's*

activities the price that might be paid for unorthodox but ethically correct behaviour is possibly a lower bonus or a later promotion. These consequences are, however, a low price to pay for following one's conscience and behaving with integrity.

In various statements Bonhoeffer refers directly to business and professional actions. For him the profession is the place where a person answers the call of Christ and accordingly acts responsibly:

*"...vocation comprises work with things and issues as well as personal relations; it requires a 'definite field of activity' (Max Weber, The Protestant Ethic and the Spirit of Capitalism 209) though never as a value in itself but only in responsibility to Jesus Christ...Vocation is responsibility and responsibility is the whole response of the whole person to reality as a whole. This is precisely why a myopic self-limitation to one's vocational obligations in the narrowest sense is out of the question; such a limitation would be irresponsibility. The nature of free responsibility rules out any legal regulation of when and to what extent human vocation and responsibility entail breaking out of the 'definite field of activity'. This can*

*brother Polyneices had fallen in battle and Antigone wanted to have him buried. This was forbidden by King Creon, because he regarded Polyneices as a traitor. He was to left on the battlefield as a prey for dogs and vultures. Appealing to the commandments of the gods, Antigone defied Creon and buried her brother. In order to maintain the authority of the state Creon, however, demanded unconditional obedience to the law and sentenced Antigone, his niece, to death. He is finally persuaded to show mercy, but it is too late. Antigone has in the meantime hung herself. Creon's son stabs himself and Creon's wife also takes her life, leaving Creon to live his life alone.*

*happen only after seriously considering one's immediate vocational obligations, the dangers of encroaching on the responsibilities of others, and finally the total picture of the issue at hand. It will then be my free responsibility in response to the call of Jesus Christ that leads me in one direction or the other. Responsibility in a vocation follows the call of Christ alone."*<sup>202</sup>

In the context of business action, a further statement of Bonhoeffer's is of great significance, namely the point that we do not find the world the way we would like it to be and independently of given conditions "in the vacuum of a purely private and purely ideal sphere".<sup>203</sup>

*"We do not create the conditions for our action but find ourselves already placed within them. In our action we are bound by certain limitations from both the past and the future that cannot be leaped over. Our responsibility is not infinite but limited. Nevertheless, within these limits it includes the whole of reality. It is not merely concerned with good intention, but also with the good outcome of action; not only with motive but also with content. It seeks to understand the entire given reality in its origin, essence, and goal, seeing it under the divine Yes and No. The objective is not the application of some kind of limitless general principle. Thus, in the given situation it is necessary to observe, weigh, evaluate, and*

202 Bonhoeffer D. (2005): 292-293.

203 Bonhoeffer, D. (2005): 248

*decide, and to do all that with limited understanding. We must have courage to look into the immediate future; we must seriously consider the consequences of our actions; and we must attempt seriously to examine our own motives and our own hearts. It cannot be our task to revolutionize the way the world operates, but at the given place to consider reality and do what is necessary. In so doing we must also ask what is possible, since we cannot always take the final step right away..."<sup>204</sup>*

The isolated individual who has to decide between a clearly recognized good and a clearly recognized evil and then incessantly and exclusively seeks for an absolute standard does not exist. And such an absolute standard is not at his disposal, as neither good nor evil reveals itself in history in its pure form.<sup>205</sup>

The standard for a responsible life is, according to Bonhoeffer, the structure of life as it is determined on the one hand by the binding of life to man and God and, on the other hand, by the freedom of one's own life - representation and accordance with reality. And, what is even more difficult for ordinary people: "Vicarious representative action and therefore responsibility is possible only in completely devoting one's life to another person. Only those who are selfless live responsibly, that means that only selfless people truly live. Human beings live responsibly where the divine Yes and the divine No

204 Bonhoeffer D. (2005) 267-268.

205 Bonhoeffer D. (2005): 247.

become one within them.<sup>206</sup>

According to Bonhoeffer we also have a responsibility for things, states and values but only from the perspective of the original, essential and purposeful determination of all things, states and values through Christ, God incarnate. Everything else is “myopic pragmatism” because it subordinates what is valuable to momentary utility.

A seventh conclusion: It is right and important that the context of a decision is of great significance and that ready-made general answers fail to do justice to the complexity of many situations. Whether situation ethics is too demanding and the call of Jesus to Peter in St. John’s Gospel “Follow thou me” can only serve as a compass is a question every Christian must ask and answer for himself. It is a matter of conscience, however, for all people in all places and in all situations to do their best to make humane decisions in the interest of those affected by the consequences of those decisions.

### 3.9

#### OUGHT, WILL, CAN

Dealing with various ethical schools of thought and their action-guiding values and norms provides valuable food for thought on a morally adequate “ought”. Against the background of my practical experience I would dare to say that for most people in most dilemma situations

206 *Bonhoeffer D. (2005): 259.*

what they morally ought to do is fairly obvious - but they still act differently.

If we ask who bears the burden of responsibility when, in a specific situation and beyond all economic, technical, cultural and social interests, the moral point of view must be recognized and taken sufficiently into consideration in weighing up the decision choices, the answer is clear. People are responsible for decisions and action structures, not organizations. Nobody can make “the system” responsible for ethically unacceptable conduct. There are, however, systemic hurdles that impede individual moral action. And, last not least, enlightened people must, when analyzing complex problems and the construction of solution architectures, involve as many of the affected persons as possible - a requirement that is often not observed.

Karl Homan has dealt thoroughly with situations in that individuals mostly know what they should do and often even desire to act accordingly, but are unable to do so consistently because they would lose out to competitors who are not burdened by moral misgivings.<sup>207</sup> In view of the importance of his arguments in the context of ethically acceptable business action the discussion of the topics presented here would be incomplete without a consideration of his ideas.

207 Homann K. (2014).

## **Traditional ethical schools of thought arose in the pre-modern life world.**

The dimensions and the complexity of the most serious contemporary moral problems are totally different from those faced by the founding fathers of Western and oriental ethics in their life world. The creative possibilities of people living today have been substantially enhanced by their access to fine-meshed nets of interaction, the availability of highly complex technologies, and the need to compete for scarce resources in global and highly competitive markets. The effects of their actions spread far beyond their immediate environment; the globalization of business activities requires an effort to deal with other cultures, their ideological validity claims and life worlds with as little conflict as possible. In modern societies the framework conditions for moral action have also changed as a result of secularization, individualization and value pluralism. As a consequence, the individual autonomy of action of leading personalities in the economy, politics and society has become more limited.

- In contrast to pre-modern communities' modern societies are characterized by a high degree of functional differentiation. The various part or function systems (e.g. the economy) unfold a high-performance capacity through specialization, the actors involved (e.g. companies and their leaders) develop a logic of their own that distinguishes them structurally from other part systems.
- As morality has not developed a part system of its

own, moral logic can only become effective in and through the logic of the other function systems (e.g. the economy or politics).

- A further point of difference between modern and pre-modern societies is that the observance of individual morality can no longer be directly controlled in and by manageable small groups. Consequently, possible deviations from the path of group morality cannot be promptly sanctioned. Anonymity is the new normality. Morality without social control is, however, not stable, particularly not when deviations bring advantages. Although the control systems of modern societies still contain elements of informal social control and even self-control, they are much more clearly characterized by formal elements of control (laws and regulations imposing sanctions), whereby the interplay of all the elements determines the efficiency of the controls.<sup>208</sup>
- Pre-modern societies are characterized by high degrees of equality in income and wealth and by low productivity. As a result, they are not in a position to generate noteworthy economic growth. Under the conditions of economic stagnation, however, changes in the distribution of income and wealth are a zero-sum game. The improvement of the one always goes hand in hand with a deterioration in the status of the other. Modern societies based on the market economy have, in contrast, always been in a

208 Homann K. (2014): 48.

position in the last few decades to promote significant economic growth. But when “the cake” gets bigger rich and poor both benefit and a non-zero-sum game is played.

- In modern societies economic competition ensures that the demand for goods and services in good quality for (mostly) affordable prices is reliably met. Competition also leads to innovation and its dispersal, and continuously brings forward new competitors who challenge the powers of established actors on the market and tend to put pressure on price levels. In traditional societies competition and innovation play a negligible part - the status quo is changed at the most by external impulses or increased pressure on resources due to changes in the population.

A final structural difference between traditional and modern societies is the need for cooperation and interaction. In modern societies the individual actor cannot reach his optimal performance level in isolation, but only through cooperation with others. In consequence, the reliability of behavioural expectations is of a disproportionately greater value.

The change in the social framework conditions also involves a change in the conditions for the implementation of morality. Rules developed in the past under completely different socio-economic and cultural conditions are only helpful in exceptional cases when the

search for solutions for totally new problems takes place under fundamentally different social preconditions. General moral principles are in any case seldom helpful when they are applied to concrete judgments and recommendations for action. In order to be helpful they must be contextualized<sup>209</sup>. The interplay of moral considerations and empirical conditions is essential for the solution of ethical dilemmas in everyday practice.

The structural changes in the social framework conditions we have mentioned lead to situations in that the individual morality of an actor implementing ethically reflected decisions reaches its limits because

*“under competitive conditions the morally motivated preliminary and additional costs of an individual that are not (overly) compensated for by market successes [can] be exploited by less moral competitors[...] A company that, for example, voluntarily accepts costly investments for the reduction of CO2 emissions in order to improve the protection of the climate can be at a disadvantage when competing with other companies that do not make such investments because the market, that pays a standardized price for the same product, does not normally honor such investments [and public recognition - reputation capital - is not usually given by civil society and the political world for such exceptional performances - KML] In the long-term, therefore, morally operating companies would have to disappear from*

209 Walzer M. (1994).

*the market. Under competitive conditions a further lowering of the “lowest socially acceptable standard of morality”, an erosion of morality, takes place.* <sup>210</sup>

There is a strong social ethical justification for market competition on account of its empirically measurable positive effects on general welfare. The disadvantage: Competition drastically restricts the possibility of individual actors to behave in a moral, altruistic and solidary fashion. “As long as no counter-measures are undertaken that systematically confront the central problem of the exploitability of preliminary and additional moral costs, moral behaviour of an individual working under competitive conditions is faced with substantial difficulties and is often completely impossible.”<sup>211</sup>

“Moral indignation” resulting from the study of moral philosophical literature, ethics seminars, corporate learning from ethically relevant case studies and so on can under such circumstances be only a part of the solution. The ethical musicality and sensitivity of the individual will be heightened by such activities - that of course possesses a high intrinsic value - but they cannot solve the basic problem of vulnerability arising from exploitation by competitors without moral scruples.

But if the aim of morality is a successful life for all people (eudaimonia) and moral discourse is not to take

<sup>210</sup> Homann K. (2014): 51. *The concept of a “lowest standard of morality” describes forms of action and behaviour that merely observe the legal minimum and orient their strategies on the lowest permissible level of action.*

<sup>211</sup> Homann K. (2014): 54.

place for its own sake in an ivory tower, the changed structural elements of the modern life world must be taken into account in the struggle for a moral philosophical approach to business enterprise. The conditions of social action must be shaped in such a way that the vast majority of people can pursue their interest in achieving a successful life with a minimum of friction - not only in the economy, but there too. In this regard, Andreas Suchanek writes, is each and every one of us called upon to invest in the conditions of social cooperation for mutual benefit.<sup>212</sup>

### **Ways out of the crisis**

As an ethics that expects individuals to let themselves be systematically and permanently exploited in return for their moral conduct has no chance of finding broad acceptance in practical business life, it must be embedded in a social order that protects morally exemplary actors by preventing their exploitation. An ethics of this kind has at least two central features:<sup>213</sup>

1. It has at least two stages, on the one hand as action ethics - at the level on that decisions and actions actually take place - and on the other hand as order ethics, the institutional level that lays down the corridor for permissible individual actions through regulations underpinned by sanctions. Out of the end-

212 *Suchanek A. (2007): 12.*

213 *Homann K. (2014): 64.*

less quantity of possible forms of action order ethics filters out the limited number of actions regarded as legitimate and makes them into norms. The morally acting individual is thus protected from exploitation and can achieve his goals without sacrificing his moral integrity.

2. A modern ethics that takes the changed social conditions and the anchorage in the market economy into account accepts that moral action is in practice essentially guided or rewarded by incentives without questioning its moral quality. Effective action ethics under conditions of (international!) competition must be developed as an incentive ethics:

*“Every ethics built upon ‘genuine moral motivation’ leads to widespread appealing, postulating and moralizing - and inversely to recrimination when the appeals are not followed. This systematically leads to exploitation of the addressees and hence, under these conditions to an ‘erosion of morality’ through moralizing.”*<sup>214</sup>

This has nothing to do with a weakening of the importance of individual morality. Individual moral motivation remains indispensable. It is a necessary condition for every kind of action that should lead to a successful life. Individual moral will alone, however, is not sufficient, because the moral actor would not then be protected from systemic, systematic and preventative

214 Homann K. (2014): 64.

mechanisms of exploitation<sup>215</sup> As not everything that would be desirable from an abstract moral perspective can also be realized under the concrete social and cultural conditions of the real world, all the “will” to do what is recognized as morally right should not lead us to lose sight of what “can” be done.

Moral action must prove to be advantageous overall in business activities and not primarily in regard to ulterior, otherworldly motives and rewards. “Advantageous” does not refer here only to the monetary aspect, but includes social recognition, individual appreciation, a good conscience and a life free of fear. An order ethics based on normative guiding ideas ensures by means of rules binding on all and underpinned by sanctions that everyone will observe the rules of the game. This in turn makes it possible that the individual can do what is morally right out of self-interest alone because the cost of violating the rule would be higher than any possible benefit. Such rules only set limits to illegitimate actions, but as trust-building instruments they widen the possibilities for cooperation.

As over-regulation inhibits innovation and economic progress and has many other undesirable consequences (for example a growing number of state employees) it is in the interest of all people of good will to develop a shared understanding of the rules of the game in the

*215 Homann supports his argument by reference to the prisoners' dilemma. An account of the dilemma can be found online under <https://de.wikipedia.org/wiki/Gefangenendilemma>. (Last accessed on 02.07.2019)*

sense of mutually recognized norms, principles and criteria, that are not only known but also shared and accepted by all.<sup>216</sup> Even in the case of a shared understanding of the rules of the game, there is still sufficient room for innovative moves the business enterprises can use to their advantage.<sup>217</sup>

Under such conditions the pursuit of personal interest in the sense of striving for profit serves the common good.

*“The demarcation line between immoral and moral action is not drawn by the distinction between egoism and altruism but by that between striving for individual advantage at the cost of others and striving for an individual benefit that allows an interaction partner to share in this benefit.”<sup>218</sup>*

In regard to the ethical level of business action an order politics must be created that regulates the conditions of action by means of binding rules, so making the immoral options for action unattractive and moral actions rewarding. To refer morally sensitive and morally motivated people to otherworldly or spiritual returns on moral investment and to expect them to take the risk of failing to cope with the reality of everyday business life is not only unworldly but counterproductive for work in a globalized world economy that takes ethical principles

216 On this point see also von Broock M. (2012).

217 Suchanek A. (2015).

218 Future generations can also be included unproblematically as future interaction partners. Homann K. (2014): 98.

seriously.

If the insights of moral philosophical thinkers described above on individual action in the present-day world are to have a broad impact, they must be supplemented by a regulatory superstructure.

*“Results that all people (can) desire will not be achieved by the corresponding moral intentions of the actors in regard to their actions, but by the sustainable pursuit of their own interests within an appropriate regulatory framework.”*<sup>219</sup>

### 3.10.

#### PRELIMINARY CONCLUSIONS

This cursory survey of the various ethical schools of thought shows, on the one hand, that although it is gratifying when leading personalities in the economy (and in politics) profess a willingness to act “ethically”, this does not in itself provide any indication of the norms to be followed, especially in view of the variety of recommendations of the different ethical schools of thought. But even if a leading figure in the economic world refers to a specific school of thought and has a “pre-communicative action intention” it remains uncertain whether he or she can carry out the action - unless order political provi-

219 Homann K. (2014): 112.

sions have been taken that protect the morally acting individual from exploitation by other morally disinterested actors.<sup>220</sup>

Statements by wise men in the course of human history on the right path to morally upright action are intellectually stimulating and helpful for people who wish to contribute to a successful life for all in their everyday personal and business actions. A reality check reveals, however, that “normal” people, and especially those engaged in business who are working under the pressure of competition, limited time and scarcity of resources, are usually not in a position to lie back and reflect on how Aristotle, Bentham, Kant, Jonas, Apel Habermas or even Bonhoeffer might have decided in their situation - or on what they should do when Homann’s order political provisions have not been put into effect.

In my experience, however, this is seldom necessary. Most ethically relevant problems that crop up in everyday business life result from a lack of decent, respectful and mindful treatment of people inside and outside the company. Issues of outstanding ethical and hence also strategic relevance, such as the use of new technologies like the CRISP-Cas9 seldom crop up in everyday business practice. The same is true of the implementation of the central goals of the *2013 Agenda for Sustainable Development*, for example Goal 10 “Less inequality” or Goal 12 “Sustainable pattern of consumption and production” and the promise to leave no one behind in the

220 Habermas, J. (1984): 280

implementation of the *Agenda*. They are part of a larger social thought pattern that individual action can influence only marginally. But as 7.8. billion steps of individual citizens of the world can have an enormous impact, responsible thinking and acting by all individuals is of the greatest significance.

The simple test for all people is still to ask themselves whether they would like their decision to appear on the front page of the daily newspaper or as a leading feature on a television news program. The instinctive avoidance of transparency because it would damage reputation or involve other personal disadvantages is a sure sign that the ethical quality of a decision and its consequences leaves much to be desired. A person who feels uncomfortable when explaining to his children at dinner why, for what reason and with what aim he had taken certain business decisions during the day has occasion to reflect on the ethical acceptability of his actions.

Simple criteria for testing the ethical quality of one's actions that require no philosophical training are provided, for example, by the directives of the Global Ethic Foundation, that were elaborated by Hans Küng and his colleagues. They are based upon general principles common to all cultures and religions and can be accepted as reasonable and just by all men of good will.<sup>221</sup>

- Every individual must be treated humanely.
- The Golden Rule must be applied in all spheres of life.

221 Küng H. (2012). See also Küng H. (2010): 290 ff.

In all fields of human action, the observation of both of these principles requires what the great German Buddhist Nyanaponika Mahathera called mindfulness. He writes:

*“The greater part of man-made suffering in the world comes not so much from deliberate wickedness, as from ignorance, heedlessness, thoughtlessness, rashness and lack of self-control. Very often a single moment of mindfulness or wise reflection would have prevented a far-reaching sequence of misery or guilt.”*<sup>222</sup>

As mindfulness does not lead to quick instructions for action, ethically reflected business action is always what Max Weber formulated in *Politics as a Vocation*: “a strong and long slow boring of hard boards; it takes both passion and perspective.” The processes of weighing up choices on the basis of the consequences resulting from differing ethical imperatives calls for leadership personalities and not just managers.

222 Nyanaponika, T. (2014):8-29.

## Chapter 4

# ON THE DIVISION OF LABOUR

### 4.1.

#### PRELIMINARY REMARKS

The “improvement of the ethical quality of business action” is a topic that cannot be adequately discussed without answering the question of a fair social distribution of responsibilities, rights and duties. Modern societies are organised on the basis of a division of labour for good reasons. Adam Smith began his famous book on the wealth of nations with the chapter “On the division of labour”.<sup>223</sup> Because of the specialisation, the accompanying technical progress and the resultant time saving, he saw the division of labour as a substantial cause of “the greatest improvement in the productive powers of labour”.<sup>224</sup> The correctness of his view of things is still undeniable almost 250 years later.

As even today Adam Smith’s complete works are often erroneously reduced to the construct of the “invisible hands”, and as the present context deals with ethical

<sup>223</sup> *Smith A. (1776/2003): 9ff.*

<sup>224</sup> *Smith A. (1776/2003): 9.*

questions in business, a short digression is permitted here:

Adam Smith used the words “*invisible hands*” only three times in his complete works and only once in his major economic work “*The Wealth of Nations*”<sup>225</sup>. It is therefore anything but a central concept.

It seems reasonable to me to assume that Smith also based his economic writings on the image of man that he described in his book *Theory of Moral Sentiments*, published 17 years earlier. Here he stated that all men have a sense of what is morally right and a conscience that judges through an impartial observer within us, and that justice is one of the most important pillars of prosperous societies.<sup>226</sup>

Having said this we can move on to the question of the division of labour within a society, that is a central prerequisite for the prosperity of nation. The division of labour is not only accompanied by a differentiation of productive activities, but also of responsibility. If one understands *responsibility* as the duty to observe certain legal, moral, social, cultural or other standards in connection with a specific task, then this responsibility must be defined in terms of content and clearly assigned to different parties. This question of the distribution of responsibility is not given the attention it deserves today. There are problems that the market can solve and others that it cannot. This makes deciding to what extent and

225 Rothschild E. (1994): 319-322.

226 Smith A. (1759/2009).

in what areas market solutions should be given priority and where government should intervene through regulation and the provision of public services a very important political task. The Swiss government defines the service that state institutions are to provide, that are called *service public*, as:

*“A politically defined basic supply of infrastructure goods and services, that should be available to all sections of the population and regions of the country according to the same principles, in good quality and at reasonable prices.”<sup>227</sup>*

Questions that arise in this context in almost all industrialised countries, but that are hardly ever discussed, although they urgently need to be answered, include:

- Should post, telecommunications, educational institutions or infrastructure services be exclusively public services or can they be privatised, i.e. outsourced to profit-making companies? For example, consistent privatization has the consequence that sparsely populated, remote areas have to take a back seat defencelessly for years when it comes to broadband expansion - a “must” in times of growing digitization.
- Do hospitals or gas, water and electricity supply companies have to make a profit or should they be organised as cooperatives whose surpluses are reinvested?

227 Schweizerischer Bundesrat (2004)

- In case of doubt, how should public interests, for example providing for the wellbeing of patients in *good quality care at reasonable prices*, be weighed against the profit interests of private companies listed on the stock exchange?

There are no simple answers to such complex questions, not least because competition leads to efficiency gains, and bureaucratic thinking and constraints do not necessarily lead to better services for citizens. Nevertheless, a public discussion about what must remain *service public* and what can be subjected to market economy criteria would be urgently needed to filter out what exactly is the responsibility of profit-oriented companies in these sectors.

For the theoretical analysis and for the purpose of distinguishing between the various tasks of different social actors, it is helpful to view society as a whole as a social system consisting of different sub-systems with different functions. In order to work as efficiently as possible, the sub-systems develop specific ways of thinking and behaviour (rationalities) as well as a distinct logic of their own. Although the various sub-systems are interrelated, they develop their own functional interests, perform specific tasks and fulfil specific duties. Within the generally binding legal framework, social sub-systems also have specific rights that differ from those of others. Niklas Luhmann created the term “functional differentiation” for this development.<sup>228</sup>

228 Luhmann N. (1995) and Luhmann N. (2012/2013).

People have different views on the questions of the responsibility for different forms of value creation and other kinds of business activity due to differing life experiences, worldviews and value priorities. The division of labour and responsibility in modern societies is obvious only in principle. Just as people go to the mayor's office, church, school, grocery store or police station in their home town with different expectations in each case, so too the different sub-systems of politics, religion, science and education, business and law have different functions, duties and rights within a society:

People in religious communities are committed to a different rationality and goal attainment than scientific enterprises. Political decision-makers have other goals than those in the legal system and use other means to achieve their ends than actors in the art system. People in business consider other approaches to achieving their goals to be reasonable than religiously minded people who see the purpose of their life in social work for a church. In order to maximize the benefits for society as a whole, all actors must remain within a corridor defined by law and morality and work together as synergistically as possible. Fair disputes over factual issues are part of the professionalism of the actors in all sub-systems - as is the presumption of innocence in the case of deviating value judgements.

A society is economically and socially most successful when there is a sensible, because fair, division of labour (functional differentiation) between the various sub-systems of the society. No actor is responsible for

everything and no one can claim all rights, but all have a moral duty not to maximize their own benefit at the expense of the community. Guaranteeing the highest degree of constructive cooperation and thus enabling synergies is most likely to succeed when there is a common understanding within a society under the umbrella of shared values with regard to the overriding social goals.

#### 4.2.

### THE ROLE OF THE STATE

The role of the state (here defined as the totality of the political and administrative institutions in the legislative, executive and judicial branches) is the fulfilment of all tasks that ensure orderly coexistence and enable cooperation for mutual benefit within the national territory for all citizens. The primary responsibility for the economic, social, environmental, political and human development of society therefore lies with the people who serve the cause in national governments and their administrative apparatuses. The most important tasks include:

- Safeguarding human rights and human dignity by enforcing the prohibition of discrimination (Article 3.3. of the German Basic Law) and ensuring minimum social security for the weakest when individual and privately organised support cannot provide it.

- Ensuring external security through a corresponding foreign and defence policy and by entering into alliances (e.g. EU, NATO) and working with international institutions in order to secure peace and freedom.
- Ensuring internal security and order through legal certainty, a properly enforced legal system and a state monopoly on the use of force.
- Provision of a reliable *infrastructure* (e.g. public administration, transport infrastructure including roads, electrification, broadband communications, educational and training institutions) and provision of competent and service-oriented personnel.
- Safeguarding the natural foundations of life (preservation of creation), among other things by ensuring that the prices of environmental goods “tell the ecological truth” and that no costs are externalised or passed on to future generations.
- Ensuring competition within the framework of a social market economy through anti-trust legislation, facilitating access to the market and guaranteeing property rights.

If these tasks are fulfilled reliably and efficiently political stability, legal certainty and planning security will result. And in this way the most important prerequisites

for the willingness of economic actors to invest will be established.

Regardless of the opportunities offered by the global economy and the resources made available by the international community, good governance involving functioning institutions, stable structures and firmly imposed principles of action will always remain the most important single factor for a sustainable social, economic and ecological development of a country.

Good governance is essentially characterised by at least the following elements:

- Participation of the population in all decisions that affect their lives.
- Transparency in the shaping of political action plans and in decision-making.
- Establishment of objectively correct priorities in problem solving and the provision of appropriate resources.
- Accountability for decisions on policies and their outcomes and for the quality of the work of government employees.
- The rule of law in the sense of an independent and efficient legal system.
- Institutional pluralism.

Good governance also includes good quality public services, accessible for all people who cannot afford market-based or insurance-based services. Health and education are particularly important here, but in the context of progressive digitization, infrastructure investments

such as the provision of high-speed internet connections in rural areas must also be undertaken.

The degree and nature of the regulation of public services required in order to achieve more comprehensive, equitable and efficient solutions will always be controversial in pluralistic societies. The constant challenge for decision-makers is to exploit the effectiveness of the market in distributing scarce resources and to combine this with the principles of social justice and environmental sustainability. Neither too little nor too much regulation creates desirable framework conditions. Finding careful regulation in a specific context is an art for that politicians are responsible.

In countries with comparable geographical locations, climatic conditions and resources, better economic success and more humane living conditions will be achieved by those nations that can rely on good governance.<sup>229</sup> This underlines the importance of the above-mentioned regulatory, legal and other “rules of the game” in regard to the possible ethical performance of companies.

### 4.3.

## THE ROLE OF THE COMPANY

<sup>229</sup> *Acemoglu D. and J.A. Robinson (2013). See also Leisinger K.M. (2004): 313-320.*

In a community with a fair and efficient social division of labour, the main function of companies is to meet the demand for goods and services on the market. This should be done at competitive prices, in good quality and in the best interests of the customers and the company. In the process, business leaders have the non-negotiable obligation to carry out all tasks in accordance with locally applicable laws and regulations and, in the case of international commitments, to comply with recognised international standards such as the UN Global Compact. The profits generated by companies in this way serve as a return on capital employed, and can be employed to finance expansion and innovation, to provide for future risks and to give an incentive for competitors to enter this market.

People in modern societies also expect companies to contribute to the common good in a variety of ways. Of course, the common good depends to a large extent on the quality of government work and the sensitivity of its regulatory mechanisms, and also on the freedom enjoyed by the markets, the level of education of the people in a society, peaceful international cooperation and other factors. However, the contribution that successful companies make is particularly important - indeed, fundamental to the prosperity of the people of a society. Neither the highest art of governance nor the most philanthropic achievements of churches or humanitarian organizations, nor the work of multilateral institutions can substitute for this contribution. Some of the most important contributions of companies to society, that

are rarely in the ethical discourse on business conduct, are presented here:

- Research, development, manufacture and sale of products and services that help solve all kinds of problems and make life easier for people.
- The creation of productive and usually fairly paid jobs at different levels of qualification.
- The payment of contributions to insurance companies and pension funds.
- The payment of taxes to finance the state and local authorities.
- The provision of training and further training services to improve the qualifications of employees and thus also to improve their chances on the labour market in the event of structural unemployment or changes in the place of work carried out on the initiative of the workers themselves. (*employability*).
- Multiplier effects through investments and contracts with third parties and purchases in the supply chain.

The benefits for society achieved in the course of normal everyday business are massively higher than the net profit landing in the pockets of the company owners. The profits achieved are an indicator of the overall quality of company achievements - they are the result of good management, not an end in themselves.

Furthermore, additional added value is created by the use of the products and services offered. It is obvious that this differs depending on the product, whether it is lipsticks or soft drinks, for example, or innovative drugs that prevent deaths from previously incurable diseases and enable chronically ill people to lead an almost normal private and professional life.

It is equally clear that modern communication technologies facilitate access to education, training and market information and enable citizens to exercise their civil rights to a historically unprecedented extent. In crises such as the Covid-19 pandemic the possibility of home-office work, teleconferences and data networking have contributed substantially to the diminishment of the economic damage resulting from lockdowns. The not less possible violation of data protection regulations or the likelihood of electoral or marketing manipulations are an expression of the ambivalence of technology.

Through inventiveness and the resulting technical innovation, it is possible to relieve people of meaningless and exhausting work. They gain time for more challenging activities, further training, voluntary work or leisure. It is to be expected that jobs in the domestic sphere will be lost as a result of progressive digitization, the switch to electro-mobility and increased (price) competition from providers from emerging markets. In order to prevent structural unemployment and a lack of prospects as a result of these changes, there is a need for joint responsibility on the part of business, politics and society – and here the role of companies is particularly

important. I am convinced that priority must be given to further training, retraining and further qualification and - for reasons of human dignity alone - not primarily to state social benefits such as a free basic income. A productive job not only permits people to earn money, but is also a prerequisite for productive participation in social life, social interchange with colleagues and many other things.

Last but not least, many companies offer voluntary additional services such as support for scientific institutions, sponsoring of the arts or philanthropic-humanitarian projects. While philanthropic services and social commitment are never a substitute for acting with integrity, they do enhance and round off the quality of the contribution to society.

In its own way and with its own rationality the economic sub-system makes an essential contribution to the common good that cannot be performed by other sub-systems. The extent and complexity of corporate value creation for society - *public value* - is now taken for granted in mature industrialised countries and is hardly ever explicitly appreciated. If one only reads about the undesirable ecological and social side effects of possible legal business activities in isolation from the sum total of value creation, the impression can arise that society is confronted with malicious destruction on the part of unscrupulous exploiters in the economic world.

The responsibility a management assumes to the best of knowledge and conscience over and beyond what

is required by national law depends on what it defines as its “purpose”, as the “motivating question about the why, the goal and purpose, of the work task, but also as the legitimation of a business model and the whole company.”<sup>230</sup>

Over the past 40 years, listed companies have, in the eyes of a large part of society, attached disproportionate importance to *shareholder value*, i.e. the leadership principle according to that increasing the value of the company and the share price is the most important task of CEOs. The contribution that companies make to the overall economic value added only becomes apparent when people recognise the value and benefit of the overall services provided (“*Public value is what the public values*”). For this reason, managers must explain in greater detail what positive external effects the sustained success of their company in its core competence will have on society. On the other hand, a departure from the pure *shareholder value principle* is necessary.

In this respect, a pleasing trend is emerging: For several years now, Larry Fink, the head of what is probably the world’s largest investment corporation, *Black Rock*, has been sending a message to the heads of the companies in his investment fund’s portfolio that is highly unusual in the finance sector. He points out that although share prices and corporate profits have reached new heights year after year, people’s concerns and the polarisation of societies are increasing. The combination of low wages and inadequate pension systems of the

230 Leipzig Graduate School of Management (2017).

relatively poorly educated workforce in many countries and the high capital gains of a rich minority deepens the social divide. Since, in Fink's opinion, most governments are not sufficiently concerned with shaping the social and ecological future of their countries, more and more people in these societies expect companies to become more involved in solving the social problems of the present and the future - and this is necessary: In order to prosper in the long term, every company must not only deliver good financial results in the short term, but also demonstrate that it makes a positive contribution to society as a whole in the long term: "Companies must be committed to embracing purpose and serving all stakeholders – your shareholders, customers, employees and the community where you operate".<sup>231</sup>

In August 2019, the US *Business Roundtable* took up and underlined this message:<sup>232</sup> The *purpose* of a company is:

- to create added value for clients;
- to invest in employees, offer them fair wages and other benefits, and promote diversity, inclusion, dignity and respect;
- to deal with suppliers in a fair and ethical manner;
- to support the communities in that they work, to protect the environment, and

231 Fink L. (2017). He also sent letters of similar content in 2018 and 2019.

232 The *Business Roundtable* is a US-American lobbying organization, that includes about 200 business leaders from all major companies. See online at: <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>.

- to create long-term value for shareholders and conduct transparent and effective dialogues.

The Business Roundtable surprises its members with a statement not previously heard from this circle: “Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country”.

Finally, Klaus Schwab, founder and president of the *World Economic Forum*, presented a declaration of principle in Davos in January 2020, according to that all stakeholders should benefit from a sustainable and jointly generated added value:<sup>233</sup>

- Employees and workers in the supply chain are to be treated with respect, fairly paid, and permanently trained and educated in a manner that respects their dignity and human rights, so that they are prepared for future changes in workplace demands.
- The wishes of the clients should be better fulfilled and possible risks and undesirable side effects should be disclosed.
- Society as a whole, and in particular the communities in that businesses operate, should be better supported, in particular by paying fair taxes that make it possible to finance the tasks of the community; and finally:
- Natural and environmental resources should be handled in such a way that the opportunities for future generations to develop are not diminished.

233 Schwab, K. (2020a)

Of course, owners (*shareholders*) who understand their responsibility holistically should also be compensated in such a way that not only their invested capital earns an appropriate return and possible risks are covered, but that sustainable investments and innovation are always possible.

These are new tones that give cause for hope. The fact that values-based corporate governance can provide considerable incentives for ethically acceptable individual action is discussed again below

#### 4.4.

#### THE ROLE OF THE INDIVIDUAL

No company (nor any other organisation) acts only as an abstract legal entity and economic institution. Targeted action is always achieved by the large number of people working at different hierarchical levels within the company. This is the reason why organizations *per se* can only be moral or immoral to a limited extent: Morality - or lack of it - is brought into organisations and institutions by people, their value orientations, their moral integrity and their consistent and coherent behaviour. Responsibility, but also guilt, can only be assigned to individuals.

The fact that blatant misconduct by individuals can discredit entire industries and institutions is shown by the example of the illegal switch-off devices in diesel engines for the German car industry, and the damage

done to the relationship of trust in entire religious communities by inexcusable actions of individuals is demonstrated by the cases of sexual abuse by church officials. People are bearers of responsibility and addressees of moral instructions; they must be placed at the centre of the discourse on ethics in everyday business.

Of course, each type of organization develops its own institutional life and specific culture, and of course this also means that every decision within an institution has an inherent element of heteronomy that results from the given institutional framework, e.g. the corporate culture and the resulting managerial behaviour. However, this fact does not reduce the responsibility of individuals; on the contrary, it increases and sharpens it: The final decision on a specific action or omission is always an individual ethical choice: people - in whatever institutional environment - bear responsibility as moral actors for ethically acceptable action. Since the necessary regulatory framework conditions are decided by people, the moral responsibility of political actors is also of utmost importance.

When we talk about people, of course, we are never just talking about members of top management (or members of government). Employees (and people in public authorities) at all levels of the hierarchy have expertise, professional experience, social and also moral competence. Often unorthodox, innovative and helpful impulses for change do not come from "above" but from "below". In her book *Followership*, Barbara Kellerman demonstrates how misleading (if not arrogant) the view

is that only “those up there” can make a decisive difference in corporate culture and illustrates how great the influence “from below” can be.<sup>234</sup> In my experience, the individual possibilities of contradicting unreasonable moral demands from above are also greater than many people realize – and it can be done without fear of unacceptable personal consequences. Deviating examples where weak superiors play the “strong man” and bad company cultures do not allow for any contradiction confirm the rule.

All people whose decisions and actions have an influence on the lives of other people have a duty to take ethical responsibility wherever possible and without the need for moral heroism. Managers in particular have a duty not only to allow morally motivated interventions by their employees, but also to take them seriously<sup>235</sup>. There is little evidence that members of staff lower down the hierarchy in companies are merely the pure recipients of orders.<sup>236</sup> There are indications that hierarchically higher-ranking individuals tend to reject objections with normative content<sup>237</sup>, but there is also evidence of contrary reactions<sup>238</sup>. The exertion of moral influence from below is therefore possible, although the degree of its success will vary from case to case.

However, leadership elites in all institutions have a

234 Kellerman B. (2008).

235 Leipzig Graduate School of Management (2017).

236 van Summeren R.: (2019). Likewise Bazerman M. (2008).

237 Kennedy, J.A. and C, Anderson (2017)

238 D’Adda G., D. Darian and R.O. Weber (2014).

special responsibility. The members of top management in particular have a great deal of influence on the value structure and ethical culture lived in the company by virtue of their authority. They have non-delegable responsibility for the strategic orientation of the company and for the characteristics of the corporate culture. The leaders of a company decide whether value management in the sense of reflecting values, discussing the formulation and implementation of standards, guidelines and management instruments is wanted and implemented.

The credibility of these governance elements depends on whether the “words” are followed by corresponding “deeds” in everyday business practice. Inconsistencies between value declarations and actual personal actions have fatal consequences for the satisfaction and motivation of the workforce. Experience in recent years has revealed dozens of examples in that discrepancies between “talking” and “walking” have led to enormous reputational losses and heavy penalties for once highly respected companies.

The demand that only “good” people should be entrusted with leadership responsibility is formally correct - but it does not lead anywhere in practice. If one assumes - as I do here - that the “moral Gaussian distribution” of people in companies is not fundamentally different from that of society as a whole and, on the other hand, one also assumes that people normally enter a company long after their primary and secondary socialisation is completed, we must accept that the overall social “moral Gaussian distribution” is similar in all

social sub-systems and is therefore also reflected in the workforce of companies. This means that at the respective ends of the normal distribution we always meet a few “saints” and “geniuses”, at the other end a few “villains” and “idiots”, and - in between- those “average people” who shape our society. Therefore, it is also part of good governance and the ethics of responsibility to reckon “with the average deficiencies of people”, as Max Weber advised in his essay “Politics as a Vocation”.<sup>239</sup>

Members of top management motivate employees when they set the right “tone” and give good examples of the actions expected in the company, in that they visibly exemplify for all to see what is considered worth striving for. In this way, leaders have an immense influence on the creation of a coherent *moral community*. If they practice differently than they preach, they create cynicism and resignation.

The only way to turn an “average company” into a “top company” (in terms of the ethical quality of business activities) is through value management, the consistent selection of new employees, value-oriented personnel development, the design of assessment and bonus criteria, and a promotion practice that selects as many managers as possible on all hierarchies from the “right” end of the Gaussian normal distribution. The requirements profile for people who are to be entrusted with the management of important institutions relevant to the common good is familiar from all the classical

239 Weber M. (1919/1946) 121.

texts: They should be holistic personalities and not mere specialists - i.e. people who stand out from the “average person” in terms of a number of character and personality traits.

The theoretical ideal is that people whose decisions and actions have an impact on the lives of others have internalised ethical imperatives to such an extent that they comply with them even when there is no surveillance and no sanctions are to be feared. That would be about level 6 on the moral development scale developed by Lawrence Kohlberg. Realistically, however, one should assume that in business, political and social practice one will also repeatedly come across types whose moral development does not (yet) seem to have gone beyond the pre-conventional level.<sup>240</sup>

### **Preconvention level**

Stage 1 – Punishment/Obedience Orientation: The immediate consequences of the action determine whether it is good or bad. Avoiding punishment and opportunistic submission to those in power are important for their own sake. Respect for an underlying moral order that requires authority and punishment to maintain it, plays no part in decision-taking. The categorizations *good* or *bad*, *right* or *wrong* are defined by those who make the rules.

Stage 2 - Instrumental-relativist orientation: The

<sup>240</sup> Kohlberg L. (1984).

right action is the one that serves to satisfy one's own needs; if others also benefit from it, this is positive, but not a decisive factor. Human relationships are characterized by the balancing of mutual advantages; ideas of fairness and reciprocity are rudimentary, but always interpreted in a material-pragmatic way. Reciprocity is on a tit for tat basis and not guided by a sense of loyalty, gratitude or justice.

### **Conventional level**

Stage 3 - Orientation on interpersonal harmony or the image of the "good boy" or "nice girl": Good behaviour is what pleases or helps others and finds their approval, regardless of the moral consequences. It is determined by stereotypical ideas of what the majority of people find right or "natural". Behaviour is often judged by the underlying intention. "To mean well" occurs for the first time as an important consideration. Being "nice" is a way of earning recognition.

Stage 4 – Law and order orientation: Authority, fixed rules and the maintenance of social order are the essential points of orientation. Right behaviour consists in doing one's duty, showing respect for authority and maintaining the existing social order for its own sake.

### **Post-conventional, autonomous or principled level**

Stage 5 - Legalistic social contract orientation with

a utilitarian touch: Right actions are usually defined in terms of general individual rights and standards that have been critically reviewed and agreed upon by society as a whole. The relativity of personal values and opinions is recognised and, accordingly, emphasis is placed on procedural rules for building consensus. Beyond what is constitutionally valid and democratically agreed upon, “the right thing” is a matter of personal values and opinions. Consequently, the “legal standpoint” is emphasized, but always bearing in mind the possibility of being able to change the law on the basis of rational social utility considerations, instead of accepting it as unchangeable as at stage 4.

Stage 6 - Orientation on universal ethical principles: What is right is determined by decisions founded on personal conscience in accordance with self-chosen ethical principles, that claim to be logically comprehensive, universal and consistent. These are abstract, moral philosophical principles (Golden Rule, Categorical Imperative), not concrete rules like the Ten Commandments. The focus is on the universal principles of justice, reciprocity, equal human rights and respect for the dignity of the human being as an individual person.

When implementing the insights found in the discourse on exemplary moral action, it would not be realistic to assume that one is dealing only with people at stage 6. Somewhere between stages 4 and 5, however, is not too much to ask.

#### 4.5.

### THREE LEVELS OF ETHICAL REFLECTION

Not everything that would be morally desirable from a theoretical perspective or in the light of ecological threats, social grievances and specific human rights problems can be achieved through the assumption of additional responsibilities by well-meaning people in companies. As stated above, the good will to act morally is not in itself sufficient to solve a problem defined as moral, if the regulatory framework allows the contrary to be done with impunity. It depends on the interplay of good will and the empirical conditions of implementation.<sup>241</sup>

In order to take into account the social division of labour and the interplay of different levels of action, it makes sense to differentiate between three levels of ethical reflection in the context of business actions

- *Regulatory ethics or business ethics* in the sense of the methodical search for binding, sanctioned rules of the game, on the basis of that incentives for responsible action are created for all actors and irresponsible action is discouraged and punished;
- *Governance ethics* in the sense of reflections and decisions on internal company regulations that embed the pursuit of profit in a normative framework that

241 Homann K. (2014).

goes beyond legal requirements, supports ethically desirable actions of employees and discourages undesirable actions and behaviour with an internal control and processing system (governance);

- *Personal ethics*, that is intended to ensure that people in the company have the desired basic ethical attitude and remain within a defined corridor of desired action and behaviour even in times of stress and scarcity of resources.

Correct decisions and actions at every level are important for the overall result of ethical endeavours. Personal ethics, however, is of singular importance. At all levels and in all institutional frameworks, people should be valued, supported and promoted, their needs recognised and their dignity respected.<sup>242</sup> Synergistic interplay on the basis of an overarching moral consensus and correspondingly consistent action at all levels ensures that sustainably successful economic activity is not at the expense of the common good or of people living in the future.

Since different moral philosophical schools of thought have different ideas about the definitions of central concepts, and confusion arises in normative discourses when people furnish one and the same concept with completely different contents, a conceptual clarification is also helpful here:

### **Regulatory ethics: obligatory rules of the game for**

242 *Leisinger K. (2018).*

## economic activity

To make sweeping judgements about “*the economy*” or even “*the companies*” is just as poor as judging “*the Germans*” or “*the Swiss*”, let alone “*the foreigners*” in an undifferentiated way. Reality is far too heterogeneous and complex for all manifestations of a concept of category to be satisfactorily grasped. To assume homogeneity where, according to all experience, heterogeneous complexity is the rule is misleading

In the present context, in line with Otfried Höffe’s definition of ethics, the term regulatory ethics understood as an endeavour,

*guided by the idea of a good and just life, to find, by methodical means and without final recourse to political or economic authorities, universally valid statements about a regulatory policy that provides incentives for responsible and full action in economic matters and consistently discourages irresponsible action.*

Regulatory ethics applies ethical principles to the reflection and definition of goals, norms and structures that the state sets as a framework for economic activity within the framework of its regulatory policy.

Regulatory ethics is of outstanding importance especially in the implementation of the *2030 Agenda for sustainable development*.<sup>243</sup> In the spirit of the above-mentioned declaration of human duties, regulatory policy should include a declaration of the duty to ensure

243 United Nations General Assembly (2015).

sustainability and should support its fulfilment with steering measures. For example, the state can encourage desirable behaviour (e.g. switching from cars to public transport) by means of selective taxes and charges. Regulatory instruments such as the CO<sub>2</sub> tax and additional measures such as ceilings and bans can make the consumption of fossil fuels more expensive. This in turn would make investments for climate policy goals economically attractive, for example, the insulation of buildings, use of telecommunications technologies instead of flying abroad, car sharing instead of company cars, and so on. The same applies to the establishment of a functioning emissions trading system. Only if the political actors ensure that previously externalised cost elements (CO<sub>2</sub> emissions) are internalised, i.e. appear in the cost accounting of every company, can the market play a role in solving ecological problems.

The state can discourage or prohibit undesirable actions by means of an appropriate regulatory policy, and it can guide pricing on markets by applying normative principles. Individual ethical intentions would thus be supported, morally correct actors in competition would not be the “idiots” because they have a worse cost structure, and the implementation of good intentions would make economic sense. Reflections on regulatory ethics and its implementation at the macro level are therefore not merely meaningful; they are also a necessary legal and economic support for morally correct action in view of the tectonic upheavals facing our society due to climate change, digitalization, increasing economic global-

ization and growing social disparities.

### **Governance ethics as value management**

As the US ethicist Thomas Donaldson once said, companies are morally unusual entities: they have no asses to kick or souls to damn.<sup>244</sup> They have no conscience that does not let them sleep, and no body that could be put into prison. Nevertheless, it is undisputed that companies as “legal persons” are bearers of rights and obligations, and, in modern societies, increasingly of moral expectations.

Because of their ability to mobilize, accumulate and synergistically combine human, economic, scientific and technical resources and use them to achieve clearly defined goals, companies must be measured by even more demanding standards of accountability than individuals. Because of their accumulative synergistic competence they have a much more highly developed capacity for the acquisition of knowledge and understanding and a more stable capacity for carrying out complex actions - they cannot talk their way out of their deviation from the path of virtue by appealing to a difficult adolescence or a temporary unsoundness of mind induced by alcohol.

Just as the body of a human being is ultimately composed of the multitude of its cells and yet a person represents infinitely more than the sum of the proper-

244 Donaldson Th. (1982).

ties of his or her cells, so it is with companies and their individual employees. Organisations are better able than individuals to do different things simultaneously with equal attention. Employees who possess inner moral convictions enabling them to solve problems in an ethically fair manner may, as experience shows, encounter obstruction within the company or obstacles created by external competitors that they cannot overcome on their own. They would then only have the choice of quitting their job and looking for other employment opportunities outside the company or betraying their values and principles. Both would be to the detriment of the general public, but also of the company concerned, and particularly of colleagues with similar convictions.

It is the task of managers at all hierarchical levels to prevent this. They must create the institutional conditions for reconciling economic success, social compatibility, ecological sustainability and respect for human rights. Leadership personalities must remove the obstacles preventing the growth of individual initiative and empowerment. Codes of conduct and corporate guidelines play an important role here. They formulate the legal requirements for company-specific policies and enrich them with practices that go beyond the customary patterns of action and behaviour.

Codes and guidelines have, in the sense of Heidegger's metaphor, merely a "jug function", i.e. they only fulfil their function to the extent that they are filled with concrete – in our case self-obligating and verifi-

able - contents. But they define for all to see the corridor of company virtues, that must be kept to, even if the law in another country might permit less ethical actions.

Codes of conduct and guidelines relieve employees of the burden of thinking about whether this or that is desirable or not when making routine decisions. There are fewer black and white issues in this context, such as "Should I give misleading information or not?", that is more a matter of intelligence than ethics. However, codes and guidelines facilitate decision-making in dilemma situations or, at least, they indicate that it would be better to involve other colleagues in the solution of a particular problem. However, we must be warned against a false sense of security. The codes of conduct are by no means able to reflect the complexity and volatility of problems that arise in today's economically globalised world. This requires people with ethical convictions - but more on this later.

Whether and to what extent a company can be regarded as a moral collective depends on the degree of freedom of action it allows its employees. Only in organisations in that people are free to choose between several options for action within a corridor of legal and legitimate actions within the framework of their professional tasks can individual responsibility be attributed and exercised at the direct level of decision-making and action. If individual freedom of action were not given or only tolerated to a very limited extent, the virtues of individual members of the organisation would

no longer be at the forefront of the ethical analysis, but the ethical quality of the governance of the company. However, fostering this ethical quality is, yet again, not an institutional matter, but part of the duties of top management.

Ethical analyses of the ethics of governance apply philosophical orientation knowledge to the criteria of the company's internal instruments with that the quality of decisions and actions on all business levels can be characterized as "morally good" - and they must be undertaken over the whole range of the company's activities from dealings with the supply chain to research and development, production and sales to the disposal of waste. We are concerned with life-affirming (biophilic) action across the generations, about life-enhancing, fair decision-making and action in dealing with people in the company and in its sphere of influence. However, this is by no means easy with regard to external stakeholders:

Where top managers and the heads of NGOs have structurally different ideas about the world views, social models and types of action and behaviour that should guide business activities and about the consequences of failure to observe them, difficulties of understanding arise that are hard to bridge. This is all the more the case where differences in the cultural, religious and political environment lead to differences of assessment. This requires, on the one hand, more and better communication about values and, on the other hand, large coalitions for a common understanding of socially important

issues. Niche interests and related worldviews are desirable touches of colour on the social canvas - but they should not act as a hindrance to innovations that will become increasingly important in the future.

It remains true that a company – even when it practices the best governance ethics - never acts only as an abstract legal and economic institution, but always through the multitude of *people* working at different hierarchical levels within it. Companies per se can only be moral or immoral to a limited extent - the personal ethics of individuals acting at all levels is of the greatest importance. What Ralph Waldo Emerson said over 100 years ago remains true today: “An institution is the lengthened shadow of one man”<sup>245</sup>.

### **Personal ethics**

Morality - or lack of it - is brought into institutions by people. It is individual character and personality traits, personal value orientations, the courage to stand up for one's own convictions and ethical sensitivity and musicality (*moral imagination*<sup>246</sup>) that determine the way people in institutions act and behave.

The respective corporate culture shapes *role models* and the institutional governance elements act as guidelines for the scope of the action portfolio - but individual failure can never be excused by corporate culture

245 Emerson R.W. (1841/1990):159

246 Werhane P. (1999).

constraints. The final decision about a specific action or omission is always an individual ethical choice.

In this respect, all the people working in a company are addressed, but first and foremost those who, by virtue of their authority and decision-making power, have a decisive influence on the value structure and ethical culture lived by the company: its managers. They have non-delegable responsibility for the strategic direction of the company and the nature of the institutional DNA. The members of the top management bodies are primarily responsible for elucidating the aim and purpose of the various work tasks and the legitimacy of the business model, and then for defining concrete goals and ensuring that the necessary internal and external resources are made available or that important cooperation partners are motivated to make the contributions expected of them.

In order to filter out from the infinite number of possible ways and means of achieving goals those that they, their most important stakeholders and the majority of people in modern societies consider legitimate, they must ensure that:

- the company's purpose and mission are defined holistically, i.e. not only encompass the business sphere of action, but also include the cultivation of social capital, the protection of natural capital and respect for human dignity as part of business activities;
- a catalogue of basic values is defined (with the par-

ticipation of as many employees as possible), the content of that is non-negotiable even in difficult times - and is exemplified in everyday life by the management team;

- codes of action and conduct as well as company guidelines are formulated, that clearly indicate the rules that must be observed to achieve the set goals;
- the processes of personnel selection, goal-setting and employee assessment reflect the spirit of these values and guidelines, that is to say that ethical criteria have an important role to play alongside business, scientific and technical criteria;
- The instruments of compliance management are enforced in everyday business life.<sup>247</sup>

Members of the top management bodies set the “tone”, set an example of the quality of action expected in the company and, as a “role model”, inspire others to act accordingly - they have a moral duty to create a coherent moral community.

Discrepancies between legal activities and what is perceived as legitimate by the majority of people in modern societies at a given point in time repeatedly give rise to criticism of companies that is harmful to their reputation. Therefore, one of the most important tasks of leaders is to constructively fill out the room for ma-

<sup>247</sup> Wieland J., R. Steinmeyer and St. Grüninger (ed.) (2014). See also Leisinger K. (2017): 30-36.

noeuvre beyond mere legality.

In order to intuitively act correctly under specific, complex conditions, i.e. in a situationally adequate ethical, intelligent, fair, reasonable, moderate and future-oriented manner, people at management level must not only have specialist knowledge and factual competence, but also a stable ethical attitude. This is based on internalized ethical orientation knowledge and guides the application of the expertise. People with such a mind-set check the appropriateness of the tools from the business management toolbox in terms of the ethics of the situation and possess moral imagination.

The awareness that even with good will and intentions of integrity, harmful side effects of actions in the core competence of the company can occur sensitizes leaders of integrity. They mobilize knowledge in this respect and attribute the consequences of their actions to themselves, even if they are unintentional<sup>248</sup>. Where, on the basis of the knowledge available to them, they see that problems are emerging, they respond proactively. They approach dilemma situations with ethical sensitivity and principled pragmatism. The work ethos of such leaders is shaped by what Erich Fromm defines with the term *love*: care, sense of responsibility, respect for other people and knowledge. Because of the great importance of this issue, we will go into it in greater depth in the context of the profile of managers (Chapter 7). One could quote whole catalogues about what such an atti-

248 We are concerned here with responsibility ethics in the sense of Max Weber; see Weber M. (1919/1946):120-121

tude means in business dealings. The common denominator, however, comes down to what Rupert Lay once formulated almost 30 years ago:

*“Act in such a way that you increase and unfold the personal (social, emotional, musical, moral, religious) life in yourself and others rather than diminish or shorten it.”*<sup>249</sup>

Erich Fromm has defined “good” action in terms of this “biophilia” postulate:

*“Good is all that serves life; evil is all that serves death. Good is ‘reverence for life,’ all that enhances life, growth, unfolding. Evil is all that stifles life, narrows it down, cuts it into pieces.”*<sup>250</sup>

The biophile person is not *forced* by his conscience to avoid evil and do good, rather his biophile conscience is motivated by life and joy; it wants to strengthen the life-affirming side in man. Such people create a productive climate of cooperation and appreciation through professional competence, value orientation and credible and sustainable action, and, in the course of time, they come to be trusted.

Many years ago, the Swiss social ethicist Arthur Rich pointed out a reservation and a fundamental problem of lasting importance, namely that all efforts to use ethical arguments to influence the design of operational processes and the actions of the people working in them

249 Lay R. (1989): 63 ff.

250 Fromm E. (1964): 47.

must take into account what is economically appropriate. Economically inappropriate action can “never be ethically justifiable in economic affairs”<sup>251</sup> The then Cardinal Josef Ratzinger expressed this reservation even more clearly:

*“A morality that thinks it can skip the expertise of economic laws is not morality, but moralism, the opposite of morality. Practicality that thinks it can do without ethics is a disregard of the reality of man and hence irrelevant. Today we need the highest level of economic expertise, but also the highest level of ethics, so that economic expertise can serve the right objectives and its findings become politically feasible and socially acceptable.”*<sup>252</sup>

Ethical competence is important on the regulatory level (economic ethics) and on the governance level of the companies (business ethics). But in the context of all kinds of action personal ethics is the determining factor. These three inter-related levels of ethical reflection form together a conflict-laden unity. Differences that belong together are part of the new normality of modern society.

However, as Arthur Rich says, even when business expertise and ethos are present, one will always encounter questions in the practical application of moral norms “to that there is no answer

251 Rich A. (1990): 16.

252 Ratzinger J. (1986): 28.

that is clear, smooth and harmonizing and leads to peace of mind.”<sup>253</sup> In other words, in addition to profound knowledge of economic laws and the highest level of ethics, patience and humility are required when solving complex problems.

253 *Rich A. (1987): 18.*



## Chapter 5

# THREE LEVELS OF RESPONSIBILITY:

### 5.1. NOT EVERYTHING IS EQUALLY IMPORTANT

What we define as the social responsibility of a company or its managers depends to a large extent on our personal value judgments, in addition to what we consider to be a fair social division of labour and responsibility. These in turn are shaped by the respective cultural and historical background and influenced by individual socialization and accumulated life experiences. As a result, the discourse on what can be expected from companies beyond compliance with the respective laws comes to very different results. For a pragmatic approach to what could receive the broadest possible approval, recourse to Ralf Dahrendorf's role theory is useful. He points out the different degrees of obligation of possible actions of individuals. Dahrendorf's differentiation between a "must", a "should" and a

“can” dimension is also extremely useful for institutions.

## **Roles and demands of society**

In his standard work *Homo Sociologicus*,<sup>254</sup> Ralf Dahrendorf analyses the different roles that people take on in the context of different functions and shows the resulting patterns of action and behaviour:

*“We obey laws, go to the polls, marry, attend schools and universities, have an occupation and are members of a church; we look after our children, lift our hats to our superiors, defer to our elders, speak to different people in different tongues, feel that we belong here and are strangers there”*<sup>255</sup>

and

*“For every position a person can occupy, whether it is described in terms of age, family, occupation, nationality, class membership or what have you – “society” has defined certain personal qualities and modes of behaviour as acceptable. The incumbent of such a position must decide whether or not to behave as society says he must. If he yields to society’s demands, he abandons his virgin individuality but gains society’s approval. If he resists society’s demands, he may preserve an abstract*

254 Dahrendorf R. (1968);

255 Dahrendorf R. (1968) p.22;

*and bootless independence, but only at the expense of incurring society's wrath and painful sanctions.*<sup>256</sup>

Dahrendorf shows this in an entertaining way using the example of Dr. Hans Schmidt, who was previously unknown to us. He is:

- a man about 35 years old,
- married and father of two children;
- German citizen, resident of a medium-sized city;
- Protestant in a predominantly Catholic population;
- by profession a student councilor and holds a doctorate;
- third chairman of the local Y Party organization;
- treasurer of the city's football club;
- passionate and good card player, and
- more passionate though less excellent driver.

Each of these functions includes specific patterns of action and behaviour that the social environment expects the holder of these positions to adopt:

*“Every position carries with it certain expected modes of behaviour; every position a person occupies requires him to do certain things and exhibit certain characteristics; to every social position there belongs a social role.*

256 Dahrendorf R. (1968), p.31;

*By assuming a social position, the individual becomes a character in the drama written by the society he is living in. With every position he assumes society hands him a role to play. (...) Social roles represent society's demands on the incumbents of social positions. These demands may be of two kinds. Demands affecting behaviour (role behaviour) and demands affecting appearance and "character" (role attributes).<sup>257</sup>*

Dr. Hans Schmidt therefore behaves differently as a student councilor when working with his students, uses a different language and uses different gestures as in his role as a passionate card player in the circle of his playing partners; as a football functionary he presents himself differently in the stadium than as the third chairman in the party meeting, at the service he acts differently than in the traffic jam on the motorway.

If Dr. Hans Schmidt were the head of a company, there would be things he must do, things he should do and others he can do if he wants to:

If he is convinced that his employees do not have the right attitude to work and are not diligent enough, he may not physically chastise them for this reason. Whether he likes it or not, he must comply with all the provisions of labour law, let alone criminal law. If he does not, he faces unpleasant consequences.

If Mr. Schmidt repeatedly torments his employees with his bad temper, arbitrariness and dramatic mood

257 Dahrendorf R. (1968), p.32f., here pp.35-36.

swings, then he should not do so, but the tormented people cannot *legally* defend themselves against this behaviour. However, since people suffer psychologically under such airs and graces and a poisoned working atmosphere is detrimental to the motivation and enjoyment of the employees, Mr. Schmidt should keep his moods under control and behave decently.

But he can also always be friendly, understanding and helpful to all people within his sphere of influence. He can promote the wellbeing of his employees by demonstrating his regard for them, listening and responding, and showing them again and again that he appreciates them. In this way, he brings pleasure to people, acquires sympathy, loyalty and human recognition - with such bosses, the way the staff treat each other generally improves, the motivation for the common cause increases and with it the willingness of all employees to do their best in the interest of the company.

Companies also have a "social position" and for them, too, this results in a social role that is determined by the demands of the respective society. Company executives can also accept the demands made on them. As a result, they will lose some of their freedom of action, but gain goodwill. They can also choose to resist and maintain an abstract independence, though possibly at the price of a certain degree of social rejection. Dahrendorf's differentiation of roles in relation to people, and the associated socially assigned patterns of action and behaviour, are therefore a good basis for discussing corporate social responsibility.

The “*must*” norms relevant in this context include the legality of actions, the “shall” norms relate to ways of acting to fulfill moral expectations held by the majority, and, finally, the “can” norms are instructions for action and behaviour whose fulfillment generates sympathy and pleasure.

## 5.2

### THE “MUST” DIMENSION OF RESPONSIBILITY

#### **Legality, productivity, effectiveness and innovation**

The economic success achieved by legal means in its core competence stands at the center of the social responsibility of a company and its executives. The necessary courses of action and behaviour are defined by the economic, technical, legal and political state of knowledge and thinking. Although the resulting processes are different in a pharmaceutical company than in companies in the textile, steel, automotive or financial industries, they must in any case be in compliance with all laws and regulations of the respective countries. For the “must” dimension of corporate social responsibility there is hardly any room for interpretation of deviating courses of action and behaviour, even in companies with a creative legal department.

Profits made in a legal manner are ethically largely unproblematic if legally correct action does not cause harm to other people THAT could have been averted

by *legitimate* action. This statement may seem superfluous to people from the business world, because it is a matter of course - but other stakeholders often see it differently: When reading many writings from the ecclesiastical, political or philosophical fields, one gets the impression that systematic efforts to protect legitimate self-interest are rather unpleasant from an ethical perspective, or that morally exemplary actions and behaviour are indissolubly connected with the neglect of one's own interests.

Such arguments are not only unworldly; they are also based on a highly misleading image of man. If morally acceptable action were exclusively bound to the renunciation of one's own interests, most people would have little incentive to take risks and to refrain from consumption in order to undertake more investments. It is not only wise, but also morally correct and socio-ethically imperative to pursue one's own interests and - in the present context - to strive for profits within the bounds of what is permissible and morally imperative.

Wherever managers and employees violate laws and legal regulations, not only costly and damaging criminal proceedings but also problems of justice arise. Those who choose to act illegally or tolerate illegality expose their company to the risk of criminal proceedings, court sentences and social ostracism, and cause considerable damage to the company - and ultimately to all decent employees. In view of the high penalties pronounced in the context of the diesel and bank affairs, compliance is ultimately much more a question of intelligence than

of morality. This is what makes the blatant violations of laws and regulations in the German car industry and banking sector in recent years so incomprehensible.

But it is more than just a question of intelligence: since it is not the companies as legal entities that make illegal decisions, but usually only these are burdened with penalties, false incentives arise. With a criminal business model, profits become possible that would be lower or even non-existent if the company acted legally. The difference in profits between legal and illegal activities normally has a direct impact on the amount of the bonuses of those under whose responsibility the fraud took place. As long as the illegal activity remains undetected, decision-makers participate in the success achieved, but if the fraud is discovered, they very rarely, if ever, have to pay back what they have received in the form of bonuses as part of the loot of criminal activity. Under such circumstances, the “educational effect” of public outrage on those responsible is also low. A more consistent prosecution of the respective decision-makers would be pedagogically helpful in this situation. Those who either gave direct orders, did not control adequately or looked the other way would not only have to pay back the bonus payments from the years in question, but would also have to *personally* bear the resultant criminal and financial consequences. The termination of the criminal proceedings on account of market manipulation against the VW CEO Herbert Diess and the chairman of the supervisory board Dieter Pötsch prevented a clarification of the issues under dispute – that was bad enough

in itself. The decision of the supervisory board of VW to take over the payment of the settlement of 4.5 million Euros is precisely the kind of socialization of costs that creates false incentives.

The reason for this evaluation does not lie in petty retaliation or ideological bias, but in considerations of justice. If illegal actions are known and punished, but penalties only affect the company as a legal entity, the privatization of profits and socialization of losses is in itself a problem. However, as a secondary consequence, even completely uninvolved employees can run into difficulties, e.g. because necessary cost-cutting measures can lead to the loss of their jobs or because there is increased price pressure in the supply chain. And so a problem of justice arises that also has political consequences.

Where people have the feeling that the “system” (here the market economy and democratic regulatory policy) only benefits “those up there” and disadvantages hit “us normal citizens”, politically explosive feelings of frustration arise. Where people in the lower half of the income pyramid lose hope that something will change in their favor, they lose confidence in the political and economic leadership. Where this is the case, protest parties gain support among voters and the desire for change through “strong” leaders increases.<sup>258</sup>

One should not blame the “protest voters” for these political consequences but call to account those who are

258 *Edelman Trust Barometer (2017)*;

ultimately responsible for the increased attractiveness of protest parties. It cannot be right, on the one hand, to justify the level of income of top managers by the great responsibility that goes with it, but on the other hand to allow them to duck away and talk their way out of the consequences of a lack of responsibility.

Legal action and behaviour are taken for what they are: *self-evident*. It is equally natural that the available resources should be used in a way that allows maximum productivity to be achieved.

The “must” dimension of the responsibility of companies and their managers includes, as explained above, the establishment of *governance structures* and the introduction of *value management processes that provide clarity about the portfolio of desired courses of action and set appropriate incentives*.<sup>259</sup>

## **Value management**

The basis of all efforts in the context of value management lies, after appropriate consultation with experts and stakeholders, in addressing the question of *purpose* and in the definition of values. Establishing the purpose of business activities and determining values helps to define the identity of the company, structure employee decisions and create confidence in expecta-

259 Wieland J. (2004);

tions for all stakeholders. The authors of the *Leipzig Leadership Model* had not only the working atmosphere in mind, but also the important political dimension of entrepreneurial activity:

*“Whoever demands achievement must be able to answer the question of purpose. A motivating answer to the question of the why, the goal and purpose of a work task, but also the legitimation of a business model, a whole company and ultimately the basic market economy order as a whole, has always been called for. In our time, however, this is becoming one of the greatest leadership challenges.*

*“Even more”, “even faster”, “even better” legitimizes less and less the handling of limited resources of any kind. A claim to leadership without a convincing answer to the question of how to contribute to a greater whole runs the risk more than ever of being implausible and arbitrary.*

*With the idea of purpose, that is more and often something other than one’s own advantage, we move the questions of meaning and significance, inner affirmation and external recognition of leadership to the center of the Leipzig leadership model. We want to draw the attention of managers to the levers that control them and others, that, in a complex economic world, justify decisions and actions, and provide orientation and motivation.”<sup>260</sup>*

The guidelines for business activities in sensitive areas

260 *Leipzig Graduate School of Management (2017) :25.*

and the codes of conduct formulated in dialogues with experts are communicated within the company through e-learning programs and publicly communicated as an element of accountability. The next - in reality the most difficult - step is to bring these values to life in all aspects of everyday business. This calls for the following:

- Job descriptions, criteria for new appointments and promotions and employment contracts at all levels of the hierarchy are supplemented or normatively enriched in the spirit of the company's values; this also applies to contracts with supply chain partners.
- Objectives, employee appraisals, incentive and bonus systems are also supplemented in the spirit of the corporate values.
- The normative enrichment of business policy and action processes is systematized by additional tasks in existing organizational units (internal audit, ethics and compliance, human resource management, communication, etc.).
- The Corporate Responsibility mindset not only becomes part of the normal business routine, including the activities in connection with the supply chain. In a deeper sense it also determines the content of internal training (Corporate Learning), that is backed up by case studies. The aim is not only to improve the professional competence of the employees, but also to improve applied orientation knowledge. Finally:

→ Both the positive results as well as the obstacles and failures of the value management efforts are periodically discussed and evaluated not only in the management and supervisory bodies, but are also a part of internal and external communication.

In contrast to a management system that is not enriched by norms, value management is about much more than the performance values that are usually at the heart of the system, such as quality, productivity, effectiveness, increased sales, cost reduction, innovation efforts and so on. Performance values remain important, but are complemented by ethical values relating to sustainability, cooperation and communication. Criteria such as integrity, honesty, fairness, assumption of responsibility, justice, solidarity and others are included in the decision matrix on an equal footing with the performance values. As a result, responsible and ethically sensitive employees do not suffer any disadvantages due to the moral quality of their actions and behaviour compared to rash sales drivers or cost-cutting agents who do not care about the social and ecological external effects of their actions.

Compliance with the “must” rules by companies as a whole and their managers requires no special emphasis. The fact that laws are not violated is not enough to gain recognition as a good *corporate citizen*. Acting in accordance with the law is always only the ethical minimum - Kant’s distinction between legality and morality is still valid. People who feel they are bound by moral laws will also exercise more care, consideration, support or

solidarity than they owe according to the letter of the law.

This is particularly necessary where work is carried out in countries where there are legislative shortcomings or enforcement deficits. Restriction to what is legally required would then be against all better judgment. What is generally true for low and middle-income countries is also justified for industrialized countries in cases where possible risks within a company can be assessed much better and earlier in the early stages of technological innovation than in any parliamentary decision-making circle.

### 5.3

#### THE "SHALL" DIMENSION OF RESPONSIBILITY

The majority of people in modern societies use the (perceived) legitimacy of their actions as a yardstick for recognition: corporate leaders should do "the right thing" beyond the minimum legal requirements, thereby avoiding foreseeable damage of legal action and enabling additional contributions to the common good.

Achievements designed to fulfill social "shall" expectations are desirable and the perceived binding nature of the norms derived from them is high - but they are not legally enforceable. The problem with the "shall" (and even more so with the "can") dimension of practiced responsibility is that the public evaluation of such

achievements is essentially a *matter of feeling*: the ideal values used as a reference basis for the evaluation of an action as “legitimate” depend to a large extent on individual world views and value judgments. Large, financially successful companies in particular are often confronted with demands of stakeholders, whose personal ideas and values are the measure of all things and are largely independent of considerations regarding a fair social division of labour or the need for consistent cost management. As modern societies are characterized by a variety of competing worldviews, ideas, opinions and interests, there are considerable differences of opinion (or feelings!) about what responsibilities a company should take on beyond what is required by law. On this issue it is obvious that not everything that is demanded of a company by civil society is a moral obligation.

### **No double standards and clear criteria**

It should be self-evident that in countries where the quality of the law does not correspond to the state of knowledge, the mere reference to *national* legality is not sufficient for recognition as a legitimate actor worldwide. Responsible leaders therefore compensate for quality deficits in local law by voluntarily providing additional services of their company, be it through the use of state-of-the-art environmental technology, the observance of fair employment conditions and due diligence with regard to questions of human rights under

the varying circumstances and working conditions.

The justification for such activities is simple: if damage to people and nature can be avoided on the basis of one's own knowledge and possibilities, a moral obligation arises: in this context, "can" means "must". Anyone who violates what is regarded as appropriate in mature democracies makes himself morally vulnerable - even if his actions are in conformity with local law. No good company can hide behind bad laws. Gaps between what is financially, technically or educationally feasible and what is actually done are not legitimate. The same applies when the goals of the Agenda 2030 for Sustainable Development are violated. The developmental goals remain normatively binding even though no corresponding regulations and laws are in force.

Apart from such obvious cases, however, even enlightened managers are unable to meet all of society's expectations. With growing social prosperity, company executives are confronted with constantly rising expectations. Some of the demands made by specialized interest groups go far beyond what can be regarded as the task of companies given a fair division of labour. The justification criterion for such claims is usually not causality or the proximity of the company to problematic circumstances, but merely the economic strength of the company.

Dealing with such unrealistic demands calls for a high degree of competence at the communication level

in a company, especially if the demands are declared as “ethical” concerns, that, of course, serves to reinforce their emotional impact. It is always possible to view economic, technical or other problems as moral problems - but that does not mean that corporate leaders in functionally differentiated societies have to accept this view of things for this reason alone.

However, a rejection of such demands requires a well-founded and plausibly communicated justification. The “simple” rejection of demands labeled as ethical with the - objectively correct - reference to the distribution of responsibilities under a fair social division of labour does not satisfy a critical public. Anyone who communicates in a shortened form may be factually correct, but he or she will be seen in an unpleasant light. In such situations, factual arguments fade into the background and the legitimacy of the claimants to make demands in the name of the whole of society is no longer questioned. One aim of communication in such cases must be to point out that it is not a question of whether the claim as such is morally justified and plausible in terms of content, but of determining who is the correct addressee of such a claim.

In principle, it would be wrong to simply give in to unjustified demands simply because this would be the easiest path to take. Where the fulfillment of political, economic, social, ecological and other special interests is concerned, these may be considered justified from the world view of the respective interest group - but

this does not prejudge any corresponding decision by the company management. The fact that a company “can” meet a demand does not mean that it “must” do so in under all circumstances. Communicating this in a credible way is a difficult task, that can only be successfully solved if a company has been able to build trust over a long period of time through its pursuance of legitimate actions.

Deciding that technical and administrative standards take precedence in cases of doubt is easy when we are dealing with global issues of human rights or the protection of the environment. But finding the right answer is considerably more difficult when dealing with the diversity of values and norms in specific cultures.

### **The compass of norms for value diversity**

In their philosophy of responsibility, successful internationally operating companies take into account not only the requirements of national law and the spirit of international standards but also the spectrum of local social expectations. Since these always reflect cultural specifics, conflicts can arise between local norms and the customary norms of OECD countries. Since one or the other is rarely completely right in such cases, decision-makers should be culturally sensitive and morally sound - and hence able to act with principled pragmatism.

In the search for cross-cultural, shared value con-

victions and moral imperatives, there is no need to start from scratch. Efforts to establish morally binding norms for peaceful coexistence in human communities have been made in all advanced civilizations. The resultant commandments (Thou shalt) and prohibitions (Thou shalt not) can be found in all essential religious texts of the great religious communities and in the philosophers of European and Asian antiquity. The reason for this is simple: human communities can only flourish in the long run if their members recognize behavioural guidelines for peaceful coexistence, i.e. renounce violence, coercion and fraud to achieve their goals and practice a minimum of fairness, justice and mutual appreciation.

The new quality of the global interconnectedness, the increased interdependence and the awareness that inwardly directed catalogs of norms of individual communities are no longer sufficient to guarantee peaceful coexistence at the global level poses new challenges for political and economic leaders. The collapse of communism and the rapidly expanding economic globalization triggered a new surge of work on defining globally binding standards. Beginning in the late 1980s, many UN conferences, countless political and academic commissions, religious and civil society working groups, and a number of outstanding lone fighters contributed to an intensive decade of efforts to find a global moral common ground. This discourse remains important, even though the basic political consensus of that time has partly dissolved in recent years.

The main reference documents include:

- *Declaration Toward a Global Ethic* of the Parliament of the World's Religions and, building on this, the *Global Ethic* concept developed by Hans Küng and his colleagues.<sup>261</sup>
- *A Common Framework for the Ethics of the 21st Century*.<sup>262</sup>
- *Our Creative Diversity: Report of the World Commission on Culture and Development*.<sup>263</sup>
- *Report of the Commission on Global Governance: Our Global Neighborhood*.<sup>264</sup>

All the “ethics catalogs” drawn up against the background of great political, religious and cultural diversity emphasize that the shared normative concepts are much greater than the disparities. Differences in detail and context were not ignored in the creation of these basic documents, but this did not obscure the recognition of the basic similarities. According to the general tenor of the texts the solution of global problems requires the advocacy of shared answers and coordinated reactions beyond cultural differences and national borders on the basis of common values and a collaborative ethos. The *Agenda 2030* took up this line of thinking and added the need for *co-creation* in the search for solutions. There

261 *Parliament of the World's Religions* (2018), Küng H. (2012).

262 UNESCO (1999);

263 UNESCO (1996);

264 *Commission on Global Governance* (1995);

is nothing to add to this today; the “wheel” does not need to be reinvented; it is ready for application in specific contexts.

All the normative imperatives listed include adherence to the Golden Rule, *i.e.* the simple but fundamental requirement to put oneself in the position of those affected by all actions and to do only to them what one could accept for oneself if the roles were reversed. Other essential common pillars of moral and virtuous behaviour are respect for life and human dignity, renunciation of violence in the solution of conflicts, preservation of creation, the right to civil liberties, justice and fairness, love, tolerance and mutual respect for each other’s differences, as well as truthfulness, mindfulness, diligence and integrity.

A further common feature of the outcomes of the various works is the demand that all individuals in all sub-systems of society, *i.e.* economy, law, science, politics, religion and education, all over the world are called upon to fill these moral demands with life.

Of course, it would be naive to assume that recognition of the common ground alone would automatically eliminate all conflicts of interest and differences in evaluation. In view of the continuing differences in cultural, social, economic and political conditions, different priorities, conflicts of values and norms will continue to exist in different cultures, at different times. Here,

too, context matters<sup>265</sup> and Hans Küng's advice remains important. He proposes that in view of such pluralistic value concepts we should not work on problems and ideological differences that are in principle unsolvable (and go our different ways without resolving disputes), but should work pragmatically on the basis of common values to solve concrete problems. Respect for diversity - within the limits of the corridor defined by the Declaration of Human Rights - is today part of the global common ground that binds us together.

For the recognition of a corridor of action that is felt to be binding on all sides both the rights to that all people are entitled on the basis of the globally recognized standards and the associated obligations must be observed<sup>266</sup>. Rights and duties are the two sides of the "coin" of responsibility. All actors in business, law, science, politics, religion, education and training all over the world have a duty, in their sphere of influence, to practically exemplify and promote the ways of thinking, acting and behaving that are regarded as normatively binding. If leadership personalities do not give a good example in this respect all the work for a global ethic will have been in vain.

In this context, the task set to the management of international companies in the "shall" dimension is to design culturally sensitive "moves" in local contexts

265 *Leisinger K. (2014)*;

266 *InterAction Council (1997)*

within the “rules of the game” of international norms.<sup>267</sup> Metaphorically speaking, many roads lead to Rome, and each individual cultural area has the right to determine its own path. The goal of ethical business conduct, is not negotiable, but the *path* is.

In some cases, however, leading executives can also respond to claims that are far removed from the core competence of their company.

#### 5.4.

#### THE “CAN” DIMENSION OF RESPONSIBILITY

Countless scientific, political and polemical essays and books have been written about answers to the general question of the risks and benefits of services in the “can” dimension. Depending on the ideological, idealistic or pragmatic convictions of the authors, the holistic or specific business thinking and the mostly unspoken values and interests, the statements are different, as can be expected. On the basis of my personal value convictions and my own experience in an international pharmaceutical company, I can confirm that services in the “can” dimension have a high social-ethical significance. With relatively modest means it is possible to help people who could not be helped otherwise.<sup>268</sup>

267 Von Broock M. (2020)

268 Leisinger K. / Schmitt K. (2012).

It is a fact that the fulfillment of expectations in the “can” category by a company is even less enforceable than is the case with “shall” expectations. In terms of both content and extent they are entirely at the discretion of the managers of the respective companies. It is also a fact that achievements in the “can” dimension cannot compensate for failures in the “must” or “shall” dimension - profiting from child labour in everyday business in one place cannot be offset against the support of school projects in another.

However, since I am convinced that in the context of the implementation of the *2030 Agenda for Sustainable Development* “can” services will gain in importance for the discourse on corporate social responsibility, I will add a few additional experiences here.

### **Warm heart and cool head**

Of course, one can rationalize in the Kantian sense about whether or not expenditure beyond what directly supports business success is legitimate. Clever business economists will find plausible arguments against optional services - hard-nosed financial managers can argue, with reference to the high tax burden, that enough is already being done for community tasks. The opportunists in the circle of colleagues will in any case base their opinion on what they think they receive as a signal from the upper management level. On the other hand, ideologists from civil society will at best say nothing

about outstanding achievements in the “can” dimension. At worst they will criticize them as insufficient measures serving only as alibis.

This means that performance in the “can” dimension must be based on a foundation of firm value convictions of the personalities in the top management and - regardless of public applause – must aim to achieve something concrete in the good cause. Enlightened leaders decide what is right for a *good corporate citizen* and how much to spend in this dimension on the basis of their value convictions and their self-image.<sup>269</sup>

Even then, success is still difficult enough if you do not wish to limit yourself to “writing a check”. If this is done for the benefit of professional actors, it is worthy of recognition. But a commitment involving the application of the knowledge, expertise and networks available within the company would be better.

When a company provides financial resources and management expertise to support projects or investments for the benefit of people in need, releases employees for volunteer work, promotes ecological projects locally or in distant countries, distributes its own goods and services at heavily subsidized prices or free of charge to needy recipient groups, or is involved in other

269 Immanuel Kant did not see philanthropic services for people who “have to struggle with great hardships” as a duty in the categorical sense, because one could not want such a principle to be regarded as a natural law, but he was sympathetic to them in his distinction between perfect and imperfect duties: Kant I (1785/1997): 31f; Kant, I (1797/1991): 187f.

socially desirable activities, this is worthy of recognition from an ethical point of view, even if it enjoys no public recognition.

When leadership personalities decide, e.g., on development policy commitments in favor of people living in poverty, the same strategic question must first be asked as in conventional day-to-day business: "Additional responsibilities yes, but for what, for whom and to what extent?" Since such services are also company resources, the question should not be taken lightly. Decisions taken by top leader because they were fashionable, or resulted from chance encounters with film stars, or seemed desirable in the context of a photo session with an American president, do not stand for the seriousness of humanitarian commitments of multinational corporations. Non-objective decision criteria lead to short-term actions, in that the expenditure on the project is often not proportionate to the PR effort involved. Performance in the "can" dimension of responsibility must be assessed, decided and implemented according to the same professional standard as business activities in the core competence area.

When it is not for immediate disaster relief serious commitment should have a lasting effect, be adapted to the needs of the recipients and be predictable for them. Otherwise, the commitment will be neither sustainable nor credible. The leading executives of the company may change, new trends in fashion may arise, the company may deviate from the path of virtue in its core

competence, other company interests may come into the foreground at short notice, all of that can lead to a sudden termination of the commitment, independently of the consequences for the former beneficiaries. Incidentally, this is a good argument for presenting services in the “can” dimension to the shareholders or other company owners for examination.

Apart from the fulfillment of the humanitarian duty of reducing suffering and improving life perspectives, if it can be done without making substantial sacrifices of one’s own, philanthropic action in the “can” dimension can also be justified philosophically in the sense of Hans Jonas or Karl Jaspers. Hans Jonas demands a completely new ethics of responsibility, because the nature of human trade has undergone a complete qualitative change. At a time when social disparities and ecological threats pose totally new threats to the peace and freedom of people living today and, in the future, there must also be a new ethics of business conduct, since existing business and legal responsibility does not adequately capture these new phenomena and fails to provide an adequate compass for ethical action.

The considerations become even more complex if one approaches the question of responsibility in the sense proposed by Karl Jaspers. In his famous essay on “The Question of Guilt” (of the Germans in the Nazi era), Jaspers mentions a metaphysical guilt that THAT goes beyond criminal, political and moral guilt.

Metaphysical guilt is the lack of absolute solidarity

with the human being as such – an indelible claim beyond morally meaningful duty. This solidarity is violated by my presence at a wrong or a crime.”<sup>270</sup>

Of course, the crimes of the Third Reich are in a category of their own. Nonetheless, today:

- despite significant progress, about 10% of the world’s population, more than 730 million people, live in absolute poverty, defined as less than 1.90 US dollars a day<sup>271</sup>;
- more than 820 million people are starving and another 2 billion are suffering from malnutrition;<sup>272</sup> climate change, the use of fertile soil for plant-based raw materials to replace diesel and gasoline and new locust plagues are adding new problems that pose an even greater threat to future food security;
- 830 women still die every day in pregnancy or childbirth from preventable diseases<sup>273</sup> and 7,000 newborns die every day from diseases<sup>274</sup> that do not kill anyone in Germany or Switzerland, and
- We are still emitting increasing quantities of climate-damaging gases into the atmosphere, that will threaten the livelihoods of entire nations in the foreseeable future.<sup>275</sup>

270 Jaspers K. (1946), p. 47 f;

271 World Bank (2018), p. 2;

272 Welthungerhilfe (2019)

273 WHO (2018a);

274 WHO (2018b),

275 United States Environmental Protection Agency (2019);

Is it totally inappropriate to see these facts in the context of Jasper's concept of metaphysical guilt? Is not human solidarity also being violated today? Aren't we in the rich countries somehow "present" while elsewhere in the world injustice is happening? Are we not also looking the other way today instead of intervening? And if all these questions are answered with "yes", can't companies also be expected to contribute to solutions?

It is obvious that there is a world of difference between an understanding of responsibility that is based on "maximizing profit while observing the minimum legal requirements" and an understanding based on the philosophers Jonas or Jasper. It is to be expected that philosophers and managers of integrity, each with good reasons, may have different opinions about the reasonableness of such an extended responsibility. Here, however, lies a problem ~~that~~ THAT must be worked through – not solved! - by means of a discourse-ethical discussion in the sense of a "value-oriented assessment of ends and purposive assessments of available means"<sup>276</sup>.

Like individuals, corporate leaders are not responsible for all the evils of the world. Even with the best will in the world, they cannot use their resources to alleviate all social hardships - and would not be legitimized to do so. However, leadership personalities in management should be morally obliged to consider where, in the "can" dimension, they can make a contribution through their

276 Habermas J. (1993): 8.

company to solutions of social and ecological problems beyond the company's profit-oriented portfolio of activities.

### **Good will alone does not guarantee success**

Efforts to act motivated by a "warm heart" do not exclude reflections of the "cool head". In the case of "can" services, too, it is not only a question of what is given as material input, but also of the administrative, legal and communicative consequences that arise as a result of such a commitment. In view of the still great needs of almost one billion people in the world, there are good reasons, for example, for a humanitarian commitment in a low-income country. However, although such commitment can have a positive effect on the lives of thousands of people, in practice it is politically highly complex, administratively burdensome and prone to error.

Well-intentioned activities designed to help poor people can put corporate executives in situations where they are confronted with criticism from the media and representatives of civil society, who may question the choice of the country selected for the activities, articulate the charge of complicity in violations of human rights by those in power or denounce other deficits in *good governance*. The beneficiaries of the "can" benefits may not be responsible for the lack of good governance in their country; indeed, they may even suffer from it - but they may still be negatively affected by possible

international action against their irresponsible rulers.

For example, I have experienced how a well-organized, needs-based program for leprosy patients in a country that was boycotted by the United States government because of the persecution of ethnic minorities had to be abandoned because the company providing aid would have otherwise suffered economic disadvantages in the USA. The involvement of the non-profit services in the boycott was of no use to anyone and harmed sick people who, through no fault of their own, suddenly found themselves without medication. Such happenings reduce the motivation for similar projects.

I have also experienced how political leaders in a low-income country wished to derive personal benefits from an aid project for the poorest of the poor, and, when they were thwarted, used their influence to prevent the company concerned from pursuing its legitimate interests. If one accepts the illegitimate wishes of such ladies and gentlemen, one is guilty of corruption; if one rejects them, one must reckon with disadvantages in everyday business activities. Withdrawing from a project, however, also creates disadvantages for its beneficiaries. Similar things can happen in other contexts:

Humanitarian commitment and the resulting empowerment of people in the local community can also bring about changes in the local power structure. The hitherto powerful and privileged will often mobilize resistance to successful project management. This can

result in friction within the project management and lead to additional costs - and if the situation worsens, it can even be dangerous for the group the company is endeavoring to help. Experience shows that in such situations there is always an "eyewitness" who diagnoses a hidden agenda lying behind the humanitarian activities of the multinational company" and then assigns blame where sober analysis would be called for.

Anyone who is committed to helping people living in absolute poverty is confronted with cultural, social and infrastructural conditions that make success possible only in the long term; and he must always reckon with unpredictable situations requiring additional investments. Although well-meant and carefully planned projects and programs can always help people in need and, in the long term, also put "a few drops of oil into a hard-running gearbox", they can hardly change the *overall system of underdevelopment*.<sup>277</sup>

Projects carried out under conditions of absolute poverty are particularly demanding and prone to failure because they are affected by all the shortcomings of the social environment. Companies that engage in philanthropic activities in such areas rarely receive positive recognition from the media and NGO actors when they succeed. But if they fail, they are subject to malicious and negative reporting. In such circumstances, services to support the youth section of a local sports

277 Myrdal G. (1968);

club are the less risky alternative.

Last but not least: Politically well-connected local experts will always benefit particularly from well-organized and professionally managed projects of any institutions of the Northern hemisphere. Their terms of employment are based on international standards and their salaries are in a totally different range from those of local institutions or governments. This, in turn, often promotes a “brain drain” and weakens local organizations, that should actually be the pillars on that local development must rest in the long term.

In view of the difficulties arising from such commitments, one can understand if the management of a company does not want to get involved where it would be most necessary and the “human return on investment” would be highest. This is regrettable, but it is not a moral failure.

Difficulties of the kind described above support the argumentation of many managers who regard the law and the interests of shareholders and customers as the only relevant reference points for legitimate action, and who do not see themselves as having any responsibility beyond this. The justification for such an attitude is often a statement made by Milton Friedman<sup>278</sup> during

278 Friedman, M. (1970): 32f. Friedman's statement is correctly quoted: “the business of business is business”, but it was made in the following context: The responsibility of the corporate executives is, according to Freeman, “to conduct the business in accordance with their desires, that generally will be to make as much money as possible while conforming to their basic rules of the

the Cold War (that is often quoted out of context!) or a narrowly defined fiduciary responsibility that excludes the use of company resources for non-business goals. However, as long as the capital markets regard additional services merely as additional costs and companies are engaged in global competition with actors whose action portfolio is even deficient in the “must” and “can” dimensions, even more enlightened managers will be under pressure to abstain from additional commitments. Although negative decisions on their part are regrettable, they should not under these circumstances be condemned in a moralizing way.

### **Careful consideration of commitments and co-creation with others**

The professional decision about services in the “can” dimension is the result of weighing up various arguments: On the one hand, such commitments always involve additional expenditure, and, on the other hand, all claimant groups are part of society and thus also belong to the circle of actual or potential customers. Their wishes, interests, expectations and needs are part of the markets in that companies want to be successful - they can therefore never be completely neglected.

*society, both those embodied in law and those embodied in ethical custom.”(my italics, KML) But the «basic rules of society» have changed, as have what is regarded as the ethical customs, so one should in all fairness always quote the full text.*

In addition, claimant groups from the environmental or social sectors have a substantial influence on public opinion. This, in turn, has considerable significance for the public image of a company. Professionally organized relationships with stakeholder groups provide management with access to an early warning system for changing values, and raise awareness of social problems that are also of long-term significance for the business environment. Much of what was articulated 20 - 30 years ago supposedly as niche interests has now reached the center of society, has become part of election programs and, after corresponding election results, has been codified in laws. Engagement in the “can” dimension of corporate social responsibility introduces people in business leadership positions to a completely different world. Feeling the pulse of the other part of society and dealing with the demands of strategically relevant stakeholders enables leaders to follow an otherwise inaccessible learning curve and opens the horizon not only for *out of the box* thinking but also for *out of the house* viewpoints.

For Ralf Dahrendorf, the fulfillment of “can” expectations was one of the basic conditions for a person’s professional success. Where corporate leaders decide to do something for society beyond acting with integrity in *the* “must” and “shall” dimensions and are active in the “can” dimension, this deserves public recognition. The reputational capital thus gained could motivate others to do the same and a dynamic promotion of the common good would result.



## Chapter 6

# RELATIONSHIPS WITH STAKEHOLDERS

### 6.1.

#### THEORY AND PRACTICE

Socrates pointed out that people tend to confuse their subjective certainties with the objective truth and that this can lead to problems between them. Niklas Luhmann went a step further; he was convinced that anyone who asserted that he knew the truth was only indicating that he had not reflected upon his own patterns of thought. The fact that all social actors tend to take their *subjective certainties* for *objective truth* also applies, of course, to the context of people both in and outside companies. Consequently, the willingness to talk with one another about differing perceptions of reality, different value hierarchies and different interests when the upholding of common interests is at stake is an intellectual mind-set of enlightened people - no matter where they work.

I mean by “enlightened” Kant’s “emergence of man from his self-incurred immaturity” but not in the Kantian sense of the “inability to make use of one’s understanding without direction from others” Although the

courage to use one's own reason is essential for top managers when making their decisions they should nonetheless beforehand make as much use as possible of the "reason" of others. Single viewpoint based decision-taking and reliance on one's own or traditional knowledge and rational capacity may well have been adequate for the great minds of Kant's age, but the complex problems of the modern age cannot be solved along these lines. Engagement with divergence in values and world views, openness for emotions and awareness of one's own prejudices and blind spots are for me a definitional part of enlightened thinking.

I have spent my entire working life in positions of great responsibility in a multinational company. In addition, I have been engaged for thirty years in research and teaching at internationally renowned universities in the fields of corporate ethics, the social responsibility of companies and development sociology. In all of these fields of work discussions frequently arose with representatives of non-government organizations, UN institutions, universities and Churches on responsibility-related topics. They were mostly controversial. The reason was not, however, a polarization between "good" people on the one side, who devoted their life and work to the wellbeing of humanity and the protection of the environment, and irresponsible profiteers or their system agents on the other side, who pursued a dubious and shady agenda.

The fundamental cause of the dissent on the issue under discussion was usually differing world views,

diverging value convictions and different interests, that resulted in differing criteria for “good” and “bad” business behaviour. To these we can add different points of view, for example in regard to a just division of labour (What must the state, what can the market and what should the company do?)<sup>279</sup>, but also in regard to the nature of the world view (for example anthropocentric versus biocentric) or to the regulation of preferences in the event of competing goals (for example access to medical supplies versus the protection of intellectual property.) What may for one person seem rational but is nonetheless considered to be a demand directed to the wrong addressee is for someone else a moral duty whose fulfillment is correctly expected of another actor, because “broad shoulders” can bear greater burdens. The fact that people exist in pluralistic societies for whom the entrepreneurial necessity to achieve the highest possible profit is already an indication of morally dubious compulsive thinking is a strange phenomenon.

Against the background of varying notions of reality, value hierarchies and interests there have always been and there still are today different ideas on the solutions to essential problems. The nature of such differences can be established by means of intensive “desk research” and can be studied and presented as a basis for taking decisions in companies. What cannot be achieved by *desk research*, however, is the feeling for the non-simultaneity of consciousness between people in different social

279 Fahnbulleh M (2019), Müller J.Z. (2019) and Stiglitz J.E. (January / February 2020); see also Schwab K. (2020);

part-systems, for example in regard to the existence of a problem and the urgency of its solution.

An impressive example of such non-simultaneity of consciousness can be found in the environmental sphere. If one reads the national political program of the Green Party of 1980 and compares it with reports on the environment of present-day companies one comes across a lot of common ground - but there is a gap of almost forty years between the two in regard to the point of time at that they achieved their awareness of the issues involved. It is almost embarrassing that the activism of a young Swedish woman and the "Fridays for Future" actions of students were needed to put the elementary endangerment of the planet through climate change on today's agenda for politics and the economy (and it might conceivably be taken off the table again on account of the CORONA crisis!) Since the conference on the environment in Rio in 1992 at the latest (almost) all the facts are well known. Apart from the acceleration of climatic change and species extinction virtually nothing new has, in principle, been added; newly published knowledge simply serves to confirm what is known and to fill out the details. By participating in a shared learning curve, we can overcome, or at least diminish, such non-simultaneity of consciousness. Dialogues with people from other part-systems of society can promote this process.

In the past many campaigns of non-governmental organizations served to make people aware of global

social, ecological and political deficits that were not on the agenda of politics and the economy. They led to desirable impulses for change in the direction of a more just and sustainable world. If one considers the multiplicity of the demands made with many differing justifications upon companies today, it seems clear that they are the result of the non-simultaneity of consciousness rather than ideologically determined mechanisms of repression. But it is a part of the leadership responsibilities of management to maintain contact with external actors on strategically relevant demands made on the company. In his plea for more ecumenism Karl Rahner called this “standing at the fence, looking over and talking to one another”.<sup>280</sup> As the technical term for such demands the English word “stakes” has gained currency, and those who present the demands are nowadays called “stakeholders”.

The concept of a stakeholder was coined in the 1960s at Stanford Research Institute (now SRI International) in the context of planning work for the Lockheed Company. SRI wanted to help managers with the development of a company strategy that took into account the rapidly changing framework conditions. Later work began on management concepts that regarded the relationship to stakeholders as a self-evident aspect of good leadership. First Edward Freeman then others saw the task of leadership personalities as lying not only in satisfying the direct economic interests of the investors or “stockholders”. The increased complexity of

280 *Rahner K. (2002), p.11ff.*

social claims on companies also required managers to be knowledgeable about the demands of stakeholders and to fulfill them at least selectively.

In this regard, as well, we can observe a non-simultaneity of consciousness. In August 2019 - almost 50 years after the beginning of the stakeholder discourse - *the Business Roundtable* led by Jamie Dimon, the head of JP Morgan, bid farewell in a two-page advertisement in the *Wall Street Journal* to the absolute priority of *stockholder value*, a leadership principle that considered the increase in the value of the company and its stock exchange quotation to be the most important task of the CEOs.<sup>281</sup> He and his co-signatories attribute to every stakeholder a significant contributory role in the success of the company and commit themselves to creating added value for all and so ensuring the future success of the companies, the communities in that they are embedded and the entire country.<sup>282</sup>

Ed Freeman, a pioneer of the stakeholder theory, defined stakeholders as those people and institutions that

- are directly or indirectly (but significantly) affected by the activities of a company and demand that their interests be taken into account in the entrepreneurial decision-making processes. Furthermore

281 <https://www.wsj.com/articles/business-roundtable-steps-back-from-milton-friedman-theory-11566205200>

282 *The Business Roundtable is a US-American lobby organisation comprising around 200 business leaders of all big American companies (Business Roundtable 2019).*

- they should be able and willing to have a positive influence on the achievement of the goals of the company (originally exclusively in a positive sense) and to share the same value basis as the bearers of responsibility in the company.<sup>283</sup>

What this means in detail depends on a variety of factors. On the one hand, the size of a company plays a part. For practical reasons small and medium-sized companies will develop relationships with those people and institutions that are directly important for their daily work. But on account of the resources available to them they will scarcely be likely to participate in debates on great philosophical or ideological topics. Experience shows that small and medium-sized companies seldom stand at the center of demands that go beyond what is regulated by law. For big, internationally operating companies the situation is totally different. They are often confronted with claims that they cannot evade, at least on the level of argument. They are also more frequently subjected to criticism on account of actions or forms of behaviour that may well be legal but are felt by members of civil society to be illegitimate.

Today the academic debate on stakeholder theory fills innumerable books<sup>284</sup> and is the subject of countless scientific articles<sup>285</sup> and many teaching programs at

283 Freeman, R.E. (1984): 46. Freeman R.E. and J. McVea (2001): 189-207.

284 Freeman R.E. (1984 and 2010); Carroll A.B. (1993); Künkel P. et al. (2016), Wieland J. (2008).

285 Wigell M. (2008); Walsh J.P. (2005): 426 - 438; McGrath St. (2017).

universities. A great number of the contributions to the discussion on ethics in business activities initiated in the scientific sphere or in NGOs expect that (at least the big) companies not only speak with external claimant groups on the widest variety of claims, but also take the biggest steps possible to fulfill their demands. Most academic authors see in good stakeholder relationships a definitional precondition for responsible action.<sup>286</sup>

Nowadays stake-holder issues play a prominent part in political discussion. As early as 2001 the “Green Paper” of the European Commission on the topic of “corporate responsibility” established that the social responsibility of companies goes far beyond the observation of obligations regulated by legal norms. In order to be politically correct or socially acceptable the management of (bigger) companies must discuss conflicting rights and interests beyond those regulated by law with the various claimant groups. Economic success must be achieved in harmony with all social interests.<sup>287</sup> The “Guide on Social Responsibility” of the International Organization for Standardization (ISO 26000) also supports the principle that a company must respect the interests of its stakeholders and take them into account in everyday business life.<sup>288</sup>

Some of the most blatant wrong decisions taken in

286 Post J.E. / Preston L.E. / Sachs S. (2002); Bielak D. / Bonini S.M.J. / Oppenheim J.M. (2007); Bonini S.M.J. / Mendonca L.T. / Oppenheim J.M. (2007); European Commission (2019);

287 European Commission 2001 (Fehlt in der Literaturliste)

288 International Standard 2010: ISO 26000: 12.

the last 30 years arose as a result of the aloof self-referentiality of top managers in “closed systems”.<sup>289</sup> People in closed systems give priority to personal interests and to the self-maintenance of the system. Personal value convictions and normative options for action are the greatest, personal ideas are the best and personal proposals for the solution of problems are the most convincing. Perceptions from one’s own life-world<sup>290</sup> are regarded as the only true perceptions. Information is then pressed into a predetermined raster, communication is formatted. Personal identity is developed in isolation from other systems and then defended. As the most important partners for communication come from the inner environment of one’s own system a self-referential regulation takes place. What is “outside” remains largely irrelevant for the internal processes of the system. Under these circumstances autistic institutional cultures arise and a narcissist loss of reality occurs. And both have undesirable consequences for the company.

Complete incorporation within a (political, economic or other) system can lead to ethical blindness because the systemically predetermined usefulness creates the corridor for what is to be regarded as morally acceptable. Ideological demarcation lines or fundamentalist rebuttals work like blinkers that blend out undesirable things from our range of perception. Systemic blindness,

289 Lay R. (2015)

290 Understood here in the sense that they are based upon an inherited body of knowledge and an unarticulated context, and are not problematized by the experiencing subject, with the result that the idea that “everything could be completely different” is not admitted. Habermas J. (1984): 138ff.

however, only ensures that the problems disappear from one's own field of vision; it does not eliminate them from the world. Self-referential decision-making in the context of complex problems is a very risky procedure, as neither the dangers nor the opportunities resulting from the decision can be rationally weighed up. This point is clearly illustrated by the happenings in the German car industry and banking system that have received wide attention in the public sphere.

Constructive discussions with people who have a different world-view, hold other things to be important and are guided by other values than those customary in the social part-system of the economy expand the horizon of leadership personalities and broaden the basis for decision-making. This is not simply a question of knowing who is "in the right". What matters is the willingness of decision-takers in pluralistic societies to concern themselves with the plurality in all its manifestations instead of demonizing other points of view and cutting themselves off from the rest of the world.

The dimensions and scope of many stakeholder claims and the growing extent of the responsibility companies are expected to bear presents a great challenge even for enlightened leadership personalities. Nowadays there is virtually no form of interest that cannot be connected in some way or other to the activities portfolio of big companies. Many of the claims are backed by well-organized and highly specialized interest and claimant groups. Archie Carroll spoke at a very early point in time of pluralistic societies as "special interest

societies”<sup>291</sup> in that a professionally operating claimant group exists for every kind of interest.

## 6.2.

### FROM STAKEHOLDER THEORY TO INTELLIGENT PRACTICE

The central significance of stakeholder relationships is to keep one’s finger on the pulse of social value transformations and to find better solutions for problems of strategic importance by means of communication with actors from other part-systems. Thorough preparation is necessary in order to establish reliable stakeholder relationships.

#### **The addressees and topics of stakeholder discussions**

Successful companies invest substantial resources in collecting the best information possible on the characteristics of their clients, evaluating the results and using them to shape their business activities in an optimal fashion. They should be no less comprehensive in acquiring and utilizing knowledge of the social “*opinion and interest market*”.

What is the nature of the claims presented? Do they

291 Carroll, A.B. (1993): 9.

apply generally to the entire industrial sector or are they specifically directed towards one company? Do they aim ultimately to abolish the existing business model or do they intend to achieve a gradual adaptation in social, ecological or other regards?

- Who are the claimants and how do they legitimize the presentation of their interests and demands? What role is played by the arguments presented in the opinion and interest portfolio of the specific societies within that the company operates?
- What capacity for action, procedural approaches and action patterns (searching for consensus or lines of demarcation, discursive or militant etc.) do the claimants have? Does experience from the past or from comparable companies exist?
- Are the representatives of a specific claimant group willing to contribute to the achievement of a shared solution or are they only interested in underlining the differences in the concepts of reality?
- Is the central principle of the company's approach to value creation being questioned or is the claimant group primarily interested in additional services designed to make the existing business model more humane, socially acceptable and sustainable in the future?

- That interests have a socially specific cultural context and that have a general global significance?
- What would be the consequence (in terms of financial and non-material returns and costs) of a fulfillment or non-fulfillment of these claims for the company?
- What are the effects of the specific geographical, financial or political situation in each case for each firm and industrial sector?

After professional stakeholder analysis top managers will be in a better position to apply both instrumental rationality and enlightened insights when deciding whether to develop stakeholder relationships and, if their decision is positive, to set their priorities in regard to the various claimant groups and the claims they make.

It makes sense to distinguish at an early stage between *primary* and *secondary* stakeholders. Relations with primary stakeholders, those who have the greatest and most direct importance for the value creation of the company (e.g. staff, suppliers, clients, investors, local communities etc.) are a self-evident part of good management. Here we are dealing only with the question of “how” and not with a “yes or no” decision as a matter of principle.

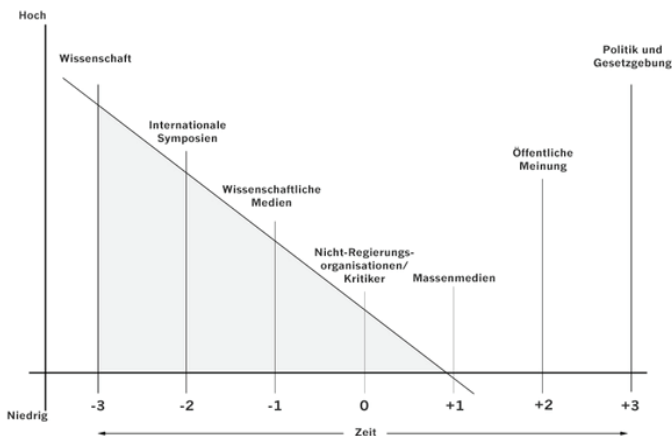
Priority does not, however, mean exclusiveness. There are a number of important additional stakeholders - here termed secondary stakeholders - for example

the representatives of NGOs who work in the same field as the company, members of academic institutions, representatives of political parties or other organizations. They can also contribute to the improvement of decision taking in the company.

### **Earlier and broader knowledge enables proactive action**

Cooperation with people from NGOs, politics and the media provide access to information on social value transformations, changes in the evaluation of technical or economic options or other issues of strategic importance for the company. Professionally organized stakeholder relationships facilitate the recognition of differing perceptions of reality and provide an opportunity to question one's own intellectual standpoints and norms of action, making it possible to reflect critically in the light of evaluations presented by others.

If a company first tackles a controversial issue at the point in time when critics take it up in public (characterized here as point of time "0") or even only when it has gained the attention of the mass media, defensive argumentation is virtually the only response available. However, defensive lines of argument are always burdened with deficits in credibility. Experience shows that they have little influence on public opinion and those parts of the political world that are directly concerned with the topic under discussion.



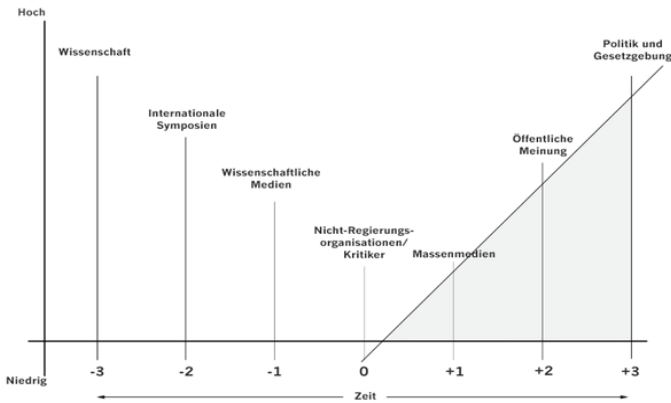
**Graph 2: Possibilities for responding proactively to emerging problems**

By means of good stakeholder relationships and the corresponding dialogues a company will become aware at a much earlier stage of strategically relevant topics. As a rule, these develop over a long period of time, beginning mostly with scientific discourse that is then thematized in international symposia, published in scientific periodicals and finally taken up by NGOs that are active in this field. If the top managers of a company are involved in this process at an early stage it is possible to present profound alternative arguments and so to become part of the developing discourse. The presentation of these alternative arguments and the defense of legitimate interests can change the structure of the entire debate.

Stakeholders are often personally committed people who have a fine feeling for problems developing outside the part-system of the economy, and who see the world in a different way than is customary within the business silo. Professionally organized<sup>292</sup> stakeholder dialogues enable the participants to make the personal acquaintance of important personalities within each of the claimant groups. In turn, this personal acquaintanceship permits the reduction of stereotypical prejudices and bogeyman images and an “openness” for ideas coming from a different social silo in that other things are regarded as important or valuable.

When public protest actions against a company begin, accompanied by negative reports in the mass media, it is too late for proactive action. Only defensive actions remain possible - but these mostly lack credibility. Negative effects on the company are then most likely precisely when its ability to influence developments is at its lowest point. (See Graph 3)

*292 Defined here as comprehensively prepared at an intellectually adequate level, correctly implemented with honest intentions and objective arguments and truthful in the sense of a genuine intention to bring about coherent action.*



**Graph 3: Negative effects on legitimate company interest**

If a topic reaches a broad public as a result of a scandal, it also becomes interesting for political actors. They may then introduce regulations that might conceivably amount to legal prohibitions. At this point even a company with the best arguments at its disposal can do little in defense of its legitimate interests. Potentially negative side effects or possibly improbable but nonetheless not completely excludable risks then dominate the discussion. The positive effects of the criticized activities are relativized by reference to possible profits. Between the lines it is then insinuated that the sole interest of the company was in profits anyway.

The discussion of the late 1980s and 1990s in the Federal Republic of Germany and Switzerland on green gene technology, that has continued in a negative form

down to the present, and the restrictive legislation introduced in both countries can be quoted as a perfect example of such processes. The present debate on CRISPR Case 9 is in danger of following such a course, in my opinion to the detriment of the common good.

Relationships with claimant groups must be long-term in their perspectives. Contacts must be made at times when there are no acute problems and hence no need arises for defensive postures. Good relationships and ongoing discussions build up trust that can be called upon in problematic times. If discussions only arise in times of crisis, they take place - if at all - in a defensive atmosphere and only deal with the acute problem, but not with the search for a common understanding. Relationships must be cultivated and the participants on both sides must have a principled interest in finding mutually acceptable solutions.

One last point is important: In the context of stakeholder dialogues talking to one another is only a first step. Dialogues are not an aim in themselves. A precondition for long-term good relations with claimant groups is a “pre-communicative intention to act” (Habermas) <sup>293</sup> One is determined to implement what one has agreed upon. If this is not done and expectations are disappointed a worse situation is created than if discussions had never taken place.

Stakeholder relationships with a long-term perspective and well-prepared dialogues on an equal footing are,

293 Habermas J. (1984): 280.

in the sense of Max Weber, “hard boards” that must be bored with passion and perspective. They are an integral part of good leadership. Nonetheless, by no means every claim directed at a company by civil society is so important strategically for the company that the responsible leaders must take them all into account. In dealing with stakeholders the top managers are not required to observe the principles of basis democracy. From case to case they must decide that issues are of long-term strategic importance for the company and that are only of momentary interest in public discussions for topical reasons.

### 6.3.

#### INSIGHTS FROM PERSONAL EXPERIENCE

Building up relationships with claimant groups of the company was for many years an integral element of my work. As issues of development policy were always of great importance for me and immoral behaviour at the expense of the poorest people in the world is particularly reprehensible, relationships and dialogues with stakeholders committed to development policy always stood in the foreground of my endeavour. Because of their emotional explosiveness and the social, cultural and political complexity of the topics involved they were also particularly demanding at the level of personal interaction. I feel that some of my “lessons learned” are worth passing on, because they can help other people to avoid disappointments and negative experiences.

## Stakeholder dialogues are not a kind of discourse ethics

Stakeholder dialogues are often regarded as meetings in that discourse ethics is practiced. In my practical experience such a notion is misleading. Neither the “ideal discussion situation” nor the “ideal communication community” on that this model is based can be created in practice, and hence there is an insurmountable gap between the model developed by Jürgen Habermas and Karl-Otto Apel and social reality. Stakeholder dialogues are embedded in a concrete social life world that is not only characterized by extensive pluralism in regard to world views and value judgments, but above all by tangible interests that inevitably come into the foreground in the course of intensive discussions.

It is in itself an interesting regulatory idea that only those action norms can claim inter-subjective validity that can be agreed upon by all the participants in a practical discourse.<sup>294</sup> But this is far removed from what can actually be achieved with the best will in the world in everyday life. The assumption that rational agreements can be arrived at provided that one communicates openly and long enough with factually motivated people lacks all practical relevance for entrepreneurial stakeholder dialogues in the real world of a society founded upon the division of labour.

In his later thinking Jürgen Habermas relativized his position on the practical applicability of discourse ethics. He pointed out that the application of funda-

294 Habermas J. (1984), 92-93.

mental norms to specific situations requires a different kind of discussion and a different perspective than the grounding of these norms:

*“Whereas the former is undertaken from the point of view of achieving what all participants in a discourse can wish for, the specific application situation requires us to consider that of the prima facie relevant and assumedly valid norms are adequate in the given situation, when this situation is described as fully as possible in all its relevant aspects. Adequacy and not generalization is here the decisive perspective through that practical reason comes into play. [...] The acceptance of a valid moral norm that meets the test of generalization can only be expected of people who can expect that this norm will also be followed by all other people. In the world as we know it this is often not the case. For this reason, legal norms are necessary and the use of political power in order to enforce actions regarded as legitimate.”*<sup>295</sup>

In a different context the theologian Hans Küng argues along the same lines: The law, understood as the manifold interaction of legislation, court decisions, social norms, values and principles, must ensure that a political community acts in a coherent manner guided by principles towards all of its members, taking into

295 Habermas, J. (2000): 160ff.

account the concrete situation:

*“[T]he application of universal norms must always be related to a specific situation. Not only what is abstractly good and right but also what is concretely good and right is good and moral. In other words: An obligation only becomes concrete in a particular situation. [...] In every concrete moral situation the general normative constant must always be considered together with the particular situationally determined variables.”*<sup>296</sup>

In practice dialogues with claimant groups mostly take the form of negotiations involving first of all sovereignty over the interpretation of social, ecological or other issues and then the consideration of the consequences for business actions. Experience shows that a person who enjoys the power of definition or the sovereignty of interpretation has unassailable strategic advantages. What is at stake is not the self-evident observation of legally fixed standards - these are non-negotiable - but additional services in the “should” or “can” dimension or the achievement of explicit political goals, for that the company is used as a means to an end.

In negotiations the search for compromises is normal. For this reason, the participants often consciously adopt extreme positions as a starting point from that concessions can be made in order to arrive at a satisfactory compromise. Negotiations, however, belong to a different category of communicative action than the

296 Küng H. (2008).

struggle to arrive at a consensus on norms in accordance with the discourse ethical model. That the “force of the better argument” will finally persuade all participants to accept norms of action is, in my experience, a rare exception to the rule and not the usual outcome of stakeholder dialogues.

In many dialogues with secondary stakeholders the source of dissent often lies in the different interpretations of morally adequate entrepreneurial behaviour by the claimant groups and the representatives of the company. Whereas the claimants often define services beyond what is legally prescribed as morally binding, the company representatives see them as voluntary additional services from the “should” or “can” dimension. In contrast to moral-philosophical discourse business practice is not concerned with the philosophical elucidation of what might be possible in society under ideal conditions.

Corporate responsibility is never abstract; it always requires the weighing up of various goods under varying circumstances. A company must assess its specific responsibility in a concrete situation for certain economic social and ecological goals and decide that duties it will fulfill and what priorities it will set. Genuine leadership personalities - and not the ideal constructs that reach the highest stage in Kohlberg’s model of moral development - must decide what must be taken into the action portfolio of the company additionally in a situation characterized by conflicts of interest, imperfections and historical facts. And all of this must be done under pres-

sure of time with scarce resources. Apart from the observation of valid norms these decisions must also take into account the aspects of strategic appropriateness and reasonableness. It is a question, therefore, of a “relative should” or a “possible can”. Consensus with all the affected persons in a modern society is neither achievable nor necessary.

My recommendation is, therefore, to “lower one’s sights” and to act at the level of entrepreneurial responsibility and not on the process and content level of corporate ethics. This involves an honest and responsible organization of the business procedures in regard to the core competences of the company in a society characterized by division of labour and the implementation of action norms that correspond to the state of scientific knowledge and are compatible with the Golden Rule.

### **Companies must define their stakeholder policies**

For enlightened and morally upright leadership personalities there are no fundamental yes or no scenarios in professionally organized and honestly conducted dialogues with claimant groups. But the strategic “whys” and questions about the substantial and formal issues of “what”, “how” and “with whom” must be dealt with. Taking up every social concern and engaging in every possible dialogue with every claimant group would, however, be a false allocation of resources.

A selection procedure for contents in the “should”

and “can” dimensions of responsibility based upon purely utilitarian criteria designed to avoid conflict and to keep discussions in the comfort zone can be frequently found, but it is insufficient. Leadership personalities in companies must take the trouble to reflect on a generally binding policy for the whole company that has the depth and breadth appropriate to the complexity of the problem under debate. And this must then be finely adapted to fit the circumstances at the local level. The choice of the stakeholders invited to participate in dialogues must be determined by the concrete situation. This can only be accomplished adequately if sufficient thought has already been devoted to deciding on the institutions, groups or persons the company regards as stakeholders.

If stakeholders are defined in accordance with a republican model as fellow citizens in the sense of an economic citizen the definition automatically leads to other obligations than when a definition is adopted, for example, according to that stakeholders are the owners of resources within a “cooperative team constituted by explicit and implicit contracts whose aim is the generation of a cooperation rent”.<sup>297</sup> The leadership personalities of companies must be involved and take an active part in all definitional processes and in the discourse on the implemental adequacy of general norms. If this is not the case and only members of staff are delegated who come from the communication or public affairs departments outcomes can arise that are in essence appropriate from

297 *Wieland J. (2008):*.25.

the point of view of the participants in the dialogues, but that may not be backed by the top management of the company in cases of conflict.

A company must not only be knowledgeable about its stakeholders and their interests, but must also be in a position to answer the question: “What opportunities and challenges do our stakeholders present to our firm?”<sup>298</sup> The development of a “stakeholder mindset” as part of a “responsibility mindset” must stand in the center of a company policy that is capable of dealing adequately with the complexity of the contemporary world situation. In itself, the preparation of a decision on a specific stakeholder policy and strategy broadens the horizon of the bearers of responsibility for issues that are not usually a central part of their daily tasks.

A professionally developed stakeholder policy is indispensable for reasons of coherence and consistency. On the one hand, in the absence of an internal company dialogue, very different levels of knowledge on important facts and diverging opinions on the nature of central problems will come to light. On the other hand, a centrally elaborated policy implemented through the company will help to prevent opportunistic or haphazard reactions to one and the same issue with differing outcomes. The procedure to be adopted here is the same as in all the other business fields (e.g. environment, social issues or human rights). The basic stakeholder policy must be regularly controlled in regard to its correctness

298 See Carroll A.B. (1993): 66.

and appropriateness, in order to be changed where necessary.

In this context two elements are of particular importance, namely the rationally grounded choice of the interests or stakes one is willing to deal with, and, following on this, the choice of the organizations or persons with whom one intends to develop relationships, hold dialogues or enter into strategic alliances. As far as the choice of the stakes is concerned, those interests must be placed in the foreground that are of strategic importance for a company acting honestly in enlightened self-interest. Other topics may well be intellectually interesting and fit in with the spirit of the times, but their inclusion in a stakeholder policy cannot be justified in terms of the responsible allocation of company resources. It would therefore be a mistake to put them on the agenda of discussions with interest groups.

As far as the definition of the “stakeholder” is concerned I would recommend, on the basis of my experience, a narrower definition than the one originally proposed by Freeman (“any group or individual who can affect or is affected by the achievement of the organization’s objectives”<sup>299</sup>) In discussions with claimant groups the issue is neither economic democracy nor the fundamental questioning of the legitimacy of entrepreneurial activities, but the shaping of the cooperation with actors who, while contributing to the success of the company, wish to realize their own interests in harmony with the

299 Freeman, R. (1984): 46f

interests of the whole community.

A good example in this regard is provided by the implementation of the *2030 Agenda for Sustainable Development*. None of its 17 goals can be achieved without the contributions of business enterprises. However, as the 2030 Agenda is a social reform agenda and not exclusively oriented on the private economy, the following criteria are of decisive importance:<sup>300</sup>

- The *cooperation principle*, that emphasizes the social nature of value creation. Sustainable value creation occurs when stakeholders satisfy their needs and wishes together with the company, with that they enter into and maintain voluntary agreements
  
- The *inclusion principle*, that focuses on the network of relationships between various groups, that all have an interest in the activities that, taken together, make up “business”. Sustainable development takes place when *all* stakeholders are involved, not only the primary stakeholders such as clients, suppliers, local communities, members of staff or investors, but also the representatives of civil society, politics and the media.
  
- The *responsibility principle*, that lays down the responsibility of all participants in the value creation process - and hence the accountability of all for all

300 Freeman, R. et al. (2004): 9f.

of their actions.

- The *complexity principle*, that calls to mind that all stakeholders are people with differing value premises, motivations and standpoints. Sustainable value creation takes place when these differences are respected in cooperative activities and (if possible) utilized for the common benefit.
- The *continuity principle*, that aims to ensure the permanence of a functioning cooperation. Sustainable value creation involves more than just the personal interest of individual actors at a certain point in time.
- The *competition principle*, that calls for the utilization of the wide variety of cooperation options that stakeholders in a free society have at their disposal. It should be on the lookout for “win-win” constellations, instead of being satisfied with suboptimal solutions.

If these principles are applied, only those stakeholders come into question for the development of professional relationships, dialogues and cooperation who

- have a clearly determined constructive relationship to the success of the company;
- have material, immaterial, economic or moral resources at their disposal and

- are willing to contribute these resources by means of formal (management, staff members, holders of capital) or informal (NGOs etc.) contracts and
- by means of these resources and their participation in the “contract” make positive contributions to the solution of problems, whether they are pecuniary (e.g. reduction of costs, improvement of demand), non-pecuniary (e.g. reputation, perception of risks), functional (specific information or know-how) or structural (e.g. contributions to the culture of the organization, or the presentation of ideas on the social responsibility of companies)

Nonetheless, it should not be expected that dialogues with claimant groups that have been thoroughly and conscientiously prepared will always take a harmonious course. Committed people argue with emotion, passion and conviction. But it should not, in principle, be a problem if the discussions are lively and controversial. George Orwell regarded this as the price of liberty. *“If liberty means anything at all, it means the right to tell people what they do not want to hear.”*

Often charismatically gifted and sympathetic personalities from civil society will make demands whose normative “correctness” is determined solely by their world-views and their individual life forms. This may well be good for our sensitivity for otherwise neglected issues, but the recourse to what is defined from an individual perspective as good and just or correct out of solidarity, is not a sufficient justification for making moral

demands on companies. Personal validity claims are different from generally binding norms - the difference lies in the reciprocal recognition.

“Performative contradictions”<sup>301</sup> must be avoided at all costs. When agreed actions are not implemented *fundamental* frustrations and rejections arise. The advice of the former New York mayor, Rudolph Giuliani, to “under promise but over deliver” is also an important maxim for stakeholder dialogues. When in dialogues with representatives of civil society action norms are *correctly* communicated but the corresponding legal developments are thwarted by lobby work within the same company, these lobbyists are acting dishonestly and consequently lose all credibility.

A sustainable stakeholder policy depends on a clear realization that dialogues involve a struggle for consensus. Luhmann, however, objects that the premise that communicative action is designed to achieve consensus is mistaken, as one can also communicate in order to underline dissent.<sup>302</sup> But leadership personalities will have no interest in creating dissent or consolidating enemy stereotypes. Their realistic goal will be the achievement of greater consensus or the best possible consensus under the given conditions. This must not exclude the possibility of conflict, but it must be conflict about the issue at stake in that the participants in the dialogue respect the otherness of their counterparts, assume the

301 Habermas J. (1990), 86ff.

302 Luhmann N. (2002): 53.

sincerity of their arguments for a particular interest and avoid all kinds of moral condemnation.

### **Discourse rules must be established and time pressure avoided**

My years-long experience of stakeholder relationships has, on the whole, been positive. But this was only the case when certain framework conditions were given.

When we are dealing with actual or supposed “zero sum games” in that the argumentative gains of one party are only achieved at the expense of argumentative losses of the other, dialogues are transformed into tough negotiations. The arguments are then tactical and strategic and not oriented towards consensus or open in regard to the outcome. There are mixed motives on all sides, different hypotheses about the goal of the other side (open versus concealed agenda) and different, but for each side supposedly “normal” underlying convictions. In dealing with these problems knowledge of the discussion on the “prisoners’ dilemma” is helpful. It teaches us that the exclusive pursuit of personal interest and sole reliance on individual rationality by each individual actor leads to worse results for all.<sup>303</sup>

Cooperation cannot be achieved by force. “Victories” are even made more easily possible when the interests

303 *Axelrod R. M. (2005).*

of the participants are totally antagonistic (as for example in a game of chess or between militant enemies of globalization and the management of an internationally operating company), because the moves of the opponent can be anticipated in advance. The consequence for stakeholder dialogues is that they should not be carried out on a short-term basis. The dialogue should not be a unique affair; the intention of the participants must be to meet again in future dialogues. In this way learning from experience and feedback from the other side becomes possible and “zero-sum-games” can be avoided.

The discussion of the ways out of the prisoners’ dilemma indicate that labeling must also be avoided, as this leads to self-confirming stereotypes. History shows that the “baddies” sooner or later take on the role attributed to them. The uncritical acceptance of an acquired reputation of another “player” is dangerous, as it can lead to potentially mistaken assumptions about his strategy. The most important insight, however, is probably that a certain reciprocal robustness is necessary, that is to say that one should not take the slightest provocation or minor lapse in behaviour as a short-term justification for a “tit for tat” reaction and discontinue the cooperation. The participants must not lose sight of the greater benefits deriving from cooperation in the future.

In difficult phases it is worthwhile studying how other actors made progress under difficult circumstances. In this regard the Helsinki Process on Globalization

and Democracy<sup>304</sup> provides valuable insights for the stakeholder relationships and dialogues of business enterprises.

- All the *relevant* (but not all) stakeholders should be included in the dialogue as early as possible, so that trust can be built up and sustainability ensured.
  
- All stakeholders must bring something to the dialogue table (resources, competencies, experience, assurances of the readiness to cooperate and willingness to search for common ground) and forego purely political demonstrations.
  
- Multi-stakeholder-initiatives must be institutionally and politically embedded - recourse to individual standpoints (no matter how clever) is not helpful
  
- Transparency and accountability are essential for a credible and legitimate process.
  
- Dissonances arising from the different interest of the participants must be recognized and named. It must also be made clear that there are no solutions for various problems that are appropriate for all situations.
  
- Trust-building measures are indispensable though difficult, both in the preparation and implementa-

304 *Finnish Ministry of Foreign Affairs (2008).*

tion of meetings. As a minimum, traditional areas of potential breakdown must be avoided in the initial phase, in order to get the dialogue up and running.

- Informal preliminary clarification, for example on the extent and the depth of the capacity to compromise, helps to avoid disappointment.

We can also gather many insights from the ecumenical movement. A person who, for example, wishes to prevent positive results in the dialogue between the Catholic and the Protestant Churches will place non-negotiable differences in the foreground of the discussion and insist on the acceptance of his own dogmas. Failure can then be interpreted by those who have no interest in the dialogue anyway - let alone in cooperation at the level of the parish - as a proof that they were always in the right and that their skepticism in regard to dialogues with "others" is justified.

A person who wishes to make concrete progress in the solution of concrete problems will always place the common ground and not the lines of division in the foreground. The focus will then be on practical combined action on the solution of the problems recognized by both sides instead of on general theoretical debates that have in any case been held a thousand times before without any tangible result. Working together and achieving practical successes together creates trust and the confidence that further progress in more difficult areas is possible.

As in the ecumenical movement, for that enlightened people can see no alternative, a company and its stakeholders must be measured by the extent to that they can recognize problems together and find approaches that promise a solution, instead of defending the “pure teaching” of their particular side down to the “last drop of blood”. A person who devotes his entire energy to the justification of differences will lack the power to promote things shared in common. The problem that is to be solved together must stand in the foreground and the willingness to find, by means of principled pragmatism, a step by step approach towards its solution.

### **Stakeholder dialogues require the involvement of the top management**

In practice many stakeholder dialogues are carried out on the company side by technical experts or even by staff from the communications field who have acquired the information they need for the task at second hand. This may make sense for strategically motivated dialogues in the context of specific negotiations, as long as the company has provided clear guidelines and has clearly defined the room for maneuver in negotiations. But when questions of a higher value order are under discussion, the participation of members of the top management is indispensable, as otherwise “uncoupled” learning will take place. In these circumstances the outcomes of the dialogues will not be binding on those

who bear the ultimate responsibility for implementing decisions. Furthermore, progress in consensus finding is often delayed or prevented because it is necessary to refer questions back to a higher level. Or clear statements may be avoided, as the company representatives feel safer with vague formulations.

Many stakeholder dialogues are characterized by demands made by what the leaders of NGOs or inter-governmental authorities regard to be “right” or “just”. If the “opposing side” of the company was also represented by top managers - that is not usually the case - such dialogues could then possibly achieve what Habermas had in mind, namely, a moral judgment on maxims and options for action that serves to clarify legitimate behavioural expectations in response to interpersonal conflicts resulting from the disruption of our orderly coexistence by conflicts of interest.<sup>305</sup> This would then also involve the justification and application of norms that determine reciprocal duties *and* rights

In conclusion I would like to present one of the most important insights I have had during my professional life: When one interacts with people who have different kinds of knowledge, whose attitudes are based upon different value convictions and world views and are molded by a different experience of life, one learns a great deal about the diversity of human thinking and feelings. When one is not walled in by ideological pre-

305 Habermas J. (1993):9.

conceptions, one is open for new insights and broader perspectives. This in turn can modify personal patterns of thinking and points of view. Scarcely any problem exists that can be better solved by the isolated actions of an individual than by the exchange of knowledge and experience with others. New perspectives can bring fresh wind into deadlocked discourse. Sustainable concepts always result from the weighing up of various arguments from different perspectives.

## CHAPTER 7

# CHARACTER AND PERSONALITY

### 7.1.

#### LEADERSHIP PERSONALITIES INSTEAD OF MANAGERS

In his speech on the dignity of man Giovanni Pico della Mirandola lets God say the following to mankind:

*“I have placed you at the very center of the world, so that from that vantage point you may with greater ease glance round about you on all that the world contains. We have made you a creature neither of heaven nor of earth, neither mortal nor immortal, in order that you may, as the free and proud shaper of your own being, fashion yourself in the form you may prefer. It will be in your power to descend to the lower, brutish forms of life; you will be able, through your own decision, to rise again to the superior orders whose life is divine.”*<sup>306</sup>

306 Pico della Mirandola (1496/1956): 7-8.

This is true for all people and hence also for those who bear responsibility in business enterprises. In the case of people whose decisions and actions have an effect on other people, however, the requirements are particularly stringent. Good leadership of companies is nowadays more than ever before an extremely complex task. Many (if not all) important questions arising in everyday business life today are questions of leadership, and answering them calls for more than professional expertise and due diligence. Orientational knowledge and the ability to take more than financial elements into account in the weighing up of choices makes it possible to achieve what Peter Drucker expects of leadership personalities: *Doing the right thing* and not just *doing things right*.

## **People are at the center**

“What is regarded as “right” beyond all legal requirements and international norms depends essentially on the personality of the decision-makers. The nature and ethical quality of business actions depends fundamentally on whether the persons whose decisions and actions affect the quality of life of others merely use them as a means to an end or as unique individuals who deserve estimation and respect. Of course the “big” ethical questions are particularly important, but, as has been said already, the majority of ethically questionable or unacceptable actions happen in daily dealings with

one another. Lack of respect, disdainful behaviour and mobbing instead of cooperation, exploitation of hierarchical structures for egoistic ends and the like can make the life of colleagues unbearable. No matter how brilliant they might be in their specialized field of knowledge, people with such character deficits should not be permitted to exercise authority over others; they should be neither appointed nor promoted. Experience shows that people who behave improperly or even dishonestly in small matters will behave no less inadequately in issues of greater ethical significance.

The consideration of the aspects of personality and character of people whose decisions influence the lives of others is immensely important. The only way to convert an average company into an enterprise that takes the lead in ethical questions lies in promoting not only the professional but also the ethical quality of its leaders. To this end it is necessary to expand and enrich the criteria for the appointment and promotion of staff by including specific aspects of character and personality, admittedly a demanding requirement.<sup>307</sup> It is equally important, and much easier to achieve, when incentive systems and bonus criteria are enriched with normative elements and are not simply related to short-term successes in the business sphere. If this is done, the probability will increase that the responsibility for the leadership of business enterprises will be entrusted to leadership personalities who can be found at the “right”

307 Schröder, O. (2013).

end of the moral Gaussian distribution curve.

The ideal requirement profile for people who are to be trusted with leadership roles is known from many classic texts. References can be found in Aristotle and Plato, Confucius and Lao Tse, Fathers of the Church like Augustine and sociologists like Max Weber. The people they recommend as role models are holistic personalities and not system agents.<sup>308</sup> They possess orientational knowledge in addition to business expertise; they think about long-term consequences and not only about short-term advantages; they can listen and not just issue orders; they embed their decisions in a greater whole. Consequently the requirement profile for leadership personalities comprises not only intelligence and industry (these are basic preconditions), but also humaneness, a feeling for justice and fairness, mindfulness, civil courage, social competence and charisma. Finally moral imaginative powers and a wealth of moral ideas are of great importance, as they help to recognize the various dimensions of a problem, to see it from different perspectives and to find an ethically correct response to the specific situation.<sup>309</sup>

The long-known characteristics might serve some people today as a basis for reflection, but nothing more,

308 Lay, R. (1990). *Lay defines system agents as individuals or boards who, in important system-typical actions, uncritically advocate the position of a social system, for example, a business enterprise. The decision on what is right or wrong is taken solely from the perspective of the interests of the system and not by the consideration or moral norms.*

309 Werhane, P. and B. Moriarty (1999).

because the construction of ideal types that are irrelevant in practice has to be avoided. Leadership personalities are also only human beings with strengths and weaknesses, virtues and vices, and all the other properties that ultimately make people human and ultimately likeable

## 7.2.

### ERICH FROMM'S CRITERIA FOR THE REQUIREMENT PROFILE OF LEADERSHIP PERSONALITIES

Among the many treatments of the elements of personality and aspects of character needed at the executive level in companies those developed by Erich Fromm in the context of his definition of love provide an excellent basis for reflection.<sup>310</sup> As the concept of “love” reduces an immense complexity care must be taken in using it, especially in the business environment. False associations are particularly counter productive here.

Fromm characterizes love as an art that can be learned with discipline, concentration, patience and reason. “Mastery” of this “art” is possible, but only when nothing in the world is more important to the individual than this specific art. Fromm embeds people’s love of one another in the larger framework of biophilia, the love of life in all its forms. This idea can be traced back

310 *Leisinger, K.M.: (2018)*

to the core of Albert Schweitzer's philosophical thinking, "reverence for life"<sup>311</sup>. This is expressed in constant striving to preserve and to promote life and to bring developable life to the highest possible level, ideas that have acquired a new importance and urgency in the contexts of climate change and the decline of biodiversity. Erich Fromm is conscious of the complexity of the word "love" and deconstructs the concept into four basic elements: care, responsibility, respect for others and knowledge. All of these basic elements are elementary aspects of good leadership and consequently all belong in the requirement profile of leadership personalities.

## Care

When the concept of care is used in business life it is spontaneously associated with "due diligence", with the care required in business transactions when analyzing risks. These risks can be ascertained with differing degrees of breadth and depth. Apart from the usual legal, ecological, information security, tax and product specific risks, enlightened leaders also take into account those THAT result from a lack of social acceptance. The license to operate, i.e. the license accorded to a company as a result of its acceptance by the people in society, is more important today than ever before. It cannot be bought on the money market; it is given to companies

311 Schweitzer, A. (1933/2008).

as a gift on account of the trustworthiness attributed to them.

If trust in a company or its leadership sinks on account of repeated violations of existing laws or felt morality it loses its attractiveness as a partner in cooperation and it will be judged to be less reliable. Companies that are always in the center of public criticism or are even involved in litigation have in the past had to devote a large share of their available resources for crisis management and legal conflicts. When crisis management becomes necessary less management time and financial resources can be spent on shaping the future, and the chances of future success sink accordingly. For Erich Fromm care is more than due diligence. It is “the active concern for the life and growth of that that we love. Where this active concern is lacking there is no love.<sup>312</sup> Requiring managers to live this out in everyday business life is not expecting too much. There is a clearly measurable relationship between the feeling of a staff member that he is valued, supported and encouraged and his level of motivation, satisfaction and performance for the company. When people can realize and fill with life the values they regard as important at their place of work, they are happy, mentally healthy – and motivated.

Leadership personalities who place the greatest value on economic efficiency should also be concerned about the personal wellbeing, inner motivation and satisfaction of their staff. According to the Gallup Engage-

312 *Fromm, E, (1957/1975): 28.*

ment Index Germany only 15% of employees have an emotional attachment to their employer. Two thirds of them and hence the majority (69%) feel only a slight attachment and work to rule. The remaining 16%, almost 6 million employees, feel no attachment at all and have already given notice in their innermost selves.<sup>313</sup> The resulting damage for the affected companies amounts to millions of Euros every year.

The contentment of staff members is an essential precondition for their personal commitment to ensuring the sustainable success of the company. Enjoying work and loving what you do<sup>314</sup> and the resultant inner satisfaction have a measurable positive effect on inner wellbeing, health and even life expectancy.<sup>315</sup> This makes motivation and identification a matter for the boss.

Care is a mental state of mind, an inner compass founded on felt obligation. It bears fruit in other areas as well, for example in regard to the preservation of creation and the fostering of social capital.<sup>316</sup> When responsibility in the sense of care is defined in an adequately broad and deep fashion people not only strive to avoid doing harm through their activities in the field of their core competence, but willingly go further and contribute to raising the ethical quality of their business actions.

313 Gallup *Engagement Index 2019*.

314 Jobs, S. (2005).

315 Busch, R. (2016).

316 Here concisely defined as a functioning, trustworthy network of relationships in a community, the readiness to help one another and to cooperate, and the confident expectation of reciprocity. OECD (2010); Putnam, R. (2000).

## The Sense of Responsibility

Fromm defines the sense of responsibility as

*“an entirely voluntary act; it is my response to the needs, expressed or unexpressed, of another human being. To be ‘responsible’ means to be able and ready to ‘respond.’”*<sup>317</sup>

The acceptance of “response-responsibility” is in the properly understood personal interest of those who wish to make well-balanced decisions based on the knowledge of alternative value convictions and interests.<sup>318</sup> The entire stakeholder literature turns on “making responses” to the expectations, fears and concerns of those who are affected by the activities of a company or can influence them.

What leadership personalities regard as their responsibility over and beyond legal requirements depends upon their own *business judgment*. This judgment will be closer to the social expectations in each particular case when it is informed by the relationships with stakeholders. The majority of people in society today feel that leadership personalities in the business world provide only few or no answers to the questions that are dear to their hearts.<sup>319</sup> The huge gap between people’s expectations and the performance portfolio of the companies is the main reason for the lack of trust in business

317 Fromm; E. (1957/1975): 29

318 Crane, A. (2009).

319 Edelman Trust Barometer (2020).

enterprises and their leaders.

For cultural and social reasons such expectations differ from country to country and the corresponding differences must be taken seriously.<sup>320</sup> The expectations on companies also differ from sector to sector. The pharmaceutical industry, for example, is confronted with completely different expectations in regard to favorable access to essential medical products or to the ethical context of clinical trials in developing countries than are banks in their field. The banks, in turn are faced with different expectations than the textile industry or companies in the extractive sector – not to mention the tobacco industry.

To make a “response”, even to uncomfortable questions, is a question of respect for others and is a matter of course for people possessing integrity. As companies cannot be expected to fulfil every expectation coming from society or the political sphere, a seriously justified rejection of a demand could be an adequate response. But to give no answer at all reveals a lack of respect for others.

## **Respect for others**

Erich Fromm describes respect for others as the ability

320 Berger, L. et al. (2014); Bergman, M et al. (2015); Bergman, Z. et al. (2019).

*“to see a person as he is, to be aware of his unique personality. Respect means the concern that the other person should grow and unfold as he is.”*<sup>321</sup>

This is even a challenge for “normal” people, much more so for leadership personalities, who, on account of their overall responsibility for the existence of their company, may have to make decisions that have negative effects on others. It is imperative under such circumstances that they do not, for example, dismiss staff simply to increase the profitability of the company, but only take such a step as the ultimate rationale after the search for alternative solutions has failed. If dismissals are unavoidable, the decisions must be communicated in a responsible fashion by the leadership personalities and they must be cushioned socially as far as possible.

Respect comprises more than regard for human rights. It means, above all, the safeguarding of human dignity. When the dignity of human beings is violated this is much more than a failure to observe national or international rights. If one considers the increasingly important referential framework provided by the *UN Guidelines on Business and Human Rights*,<sup>322</sup> it becomes clear how widely the respect for other people is nowadays defined.

The *UN Guidelines* make it particularly clear that “working to rule” in the sense of legal compliance and actively lived responsibility in the sense of the Golden

321 Fromm, E. (1957/1975):30

322 United Nations 2011

Rule are not two different ways of showing respect for the rights and the dignity of other human beings; they are two totally different dimensions of thinking and acting. Actions in accordance with the law and legislation (legal compliance) does nothing that is forbidden in regard to third parties. Respect for others goes far beyond what is legally prescribed.; it presupposes respect for others out of inner conviction and the self-imposed obligation to avoid all forms of discrimination, be it unequal treatment or rejection of equality of opportunity on account of ethnic origin, age, disablement religion, world-view or gender.<sup>323</sup>

Respect for others in everyday business life directly involves the respectful treatment of *hierarchically* – not *humanly* – subordinate staff members by the top managers. A person who does not act in accordance with the Golden Rule (Do not treat others in ways you would not like to be treated yourself) should not be appointed to a position involving authority over others. It is asking too much to expect closeness to staff members, clients, suppliers, critics or politicians in everyday business life. But human understanding of others and respect for their otherness is not only reasonable and fair; it is an indispensable precondition for constructive social interaction.

Respect for others presents the leading executives

323 *The complexity of the topic of discrimination nowadays is revealed by the Handbook on European Non-Discrimination Law. See European Court of Human Rights and European Union Agency for Fundamental Rights (2018).*

of internationally operating companies with an additional and particularly difficult task: They work in the context of different cultures and hence of different ideas as to what is morally required or forbidden. Moral convictions are shaped by specific forms of cultural and historical socialization. In order to be successful an internationally operating company must, on the one hand, be a part of the local society and accordingly respect a large part of its culturally determined values. On the other hand, there are clear limits to this respect, as the legitimacy of international enterprises is also measured by the international consensus on morally acceptable activities as it has crystallized over the years. Conflicts are bound to occur in such circumstances, but they can be solved without falling into any kind of moral relativism.

In the case of inter-culturally determined problems there are, in my experience, three categories of action and behaviour each of that calls for a different specific approach:<sup>324</sup>

- those that differ from what might be expected in terms of Western routines due to the local cultural circumstances but are unproblematic from a global perspective, because they are, for example, compatible with the basic values and principles of the world ethos body of thought. Here respect for the local culture calls for a procedure that is in accordance with the perspectives of the local population. As examples we can cite the content of advertising mes-

324 *Leisinger, K.M. (2015).*

- sages or attestations of respect for local dignitaries;
- those forms of action and behaviour that are compatible with the customs and practices of the local culture, but violate international norms and the canon of values of the world ethos. The respect for other cultures ends here. (Examples are child labour, gender-specific discrimination, and the disadvantaging of ethnic or religious minorities). In such cases it is not only necessary to act differently from what is proposed by the local culture; here affirmative action is called for and a critical dialogical analysis of the causes of the *clash of cultures*.
  - those cases, finally, in that the cultural disagreements cannot be overcome but can be defused by an intelligent change in decision procedures. (Examples are conflicts between the cultural obligations of local decision-makers and the requirements of international norms). In my experience such conflicts can be solved by transferring the decision-making from individuals to teams and so protecting local decision-makers who act correctly according to international standards but violate local cultural expectations such as giving preference to family members or members of their own ethnic group when placing contracts or appointing employees. When conformity with the rules (for example obligatory compliance requirements) leads to serious conflicts with the local culture, international executives should publicly explain why they are taking a different path (*comply* or *explain*). Such conflicts should not be carried out

on the backs of the local staff.

The knowledge that almost everything can be seen differently and that taking into account different perspectives is always advantageous makes respect for others a *sine qua non* when taking decisions. The often difficult weighing up of the options between the requirements of respect and what has come to be regarded over the years and all over the world as an acceptable pattern of action calls for knowledge – alongside love, care and a sense of responsibility. According to Erich Fromm respect for another person “is not possible without *knowing* him; care and responsibility would be blind if they were not guided by knowledge.”<sup>325</sup>

## Knowledge

Erich Fromm defines knowledge as an aspect of love that “penetrates to the core. It is possible only when I can transcend the concern for myself and see the other person in his own terms”, that is to say without the filter of personal interest, considerations of utility, prejudices and hierarchical structures. This calls for self-knowledge, Fromm says, for a sober recognition of personal strengths and weaknesses, talents and competencies, prejudices and blind spots. Recognition of personal weaknesses involves the knowledge that we as human beings tend to judge our own intellectual, social and

325 Fromm, E. (1957/75): 30.

other abilities more favorably than they actually are. If our basis is subjectively colored and we are possibly surrounded by people who only tell us what we want to hear, insight into our own incompetence often becomes impossible.

Knowledge is of such elementary importance that it deserves a more profound treatment than I can offer here.<sup>326</sup> In the present context I would like to make only the following point: The concept of knowledge is so complex that one could develop numerous courses of study in a variety of faculties in order to deal adequately with all the different possible perspectives. All the important factors – care, the sense of responsibility and respect for others – depend on what people recognize and perceive. Knowledge is the precondition for the acknowledgment of others. It is the most important element of good leadership. Enlightened leadership personalities know that what people regard as objective reality is only the product of a variety of subjective basic assumptions. In the words of Erich Fromm, man constructs “an all-inclusive mental picture of the world that serves as a frame of reference from that he can derive an answer to the question of where he stands and what he ought to do.”<sup>327</sup>

The consequences of different subjective constructions of reality is described by the former chief editor of

326 For a more detailed account see my treatment in: *Leisinger K.M.* (2018):102ff.

327 *Fromm, E.* (1947/1990) 46-47.

the newspaper BILD as follows:

*“Everything we think and say about others is only the sum of our own experience multiplied by supposed knowledge, divided by personal antipathy or sympathy towards the person concerned, - and ultimately only vague and subjective, the projection of our own knowledge of the other.”*<sup>328</sup>

As all people think and act against the background of their personal socialization, value convictions, interests, character and personality, many different conceptions of “reality” arise, and everyone regards his reality as “the one, true reality”.<sup>329</sup> The perception of the social environment, the evaluation of patterns of behaviour and action, the definition of an existing situation as a “problem” or an “opportunity” and the direction one’s own decisions take are all determined by this subjective definition of reality. Against this background we make decisions and undertake actions to the best of our knowledge and belief, without any awareness of the narrowness of OUR own perceptions of reality and without being able to accept the different perceptions of reality of others. Leadership personalities are again and again faced with the question of the difference between what people like themselves regard as reality and what the reality actually is, independently of any individual perceptions.<sup>330</sup>

328 Röbel, U (2003).

329 Watzlawick, P. (1977) and Watzlawick, P. (1984).

330 Rupert Lay distinguishes between two forms of reality. In the first form (that he terms “Wirklichkeit” in German) we are concerned with the sum total

No one who has worked together with people from different layers of society will doubt that “social being” determines the “consciousness of man”. The imbalance of power changes every situation between men consciously or unconsciously. Perceptions are never independent of the social framework in that they occur. The opinions of powerful people create “alternative facts”, not only in the sphere of influence of the American president but also in business enterprises, fully independently of the state of scientific knowledge.

System agents and opportunists take their bearings from the powerful when forming their own opinions. It requires courage and steadfastness to question a recognizably false ideology in the face of powerful people, particularly when one’s own self-understanding, the level of one’s income or the speed of promotion depend upon it. The insight that one’s personal view of an issue is constructed and that a high professional status does not necessarily mean a better cognitive capacity is a particular challenge for people at the top of hierarchies. They often assume that they are better, more effective and more efficient than others who have failed to achieve a similar status. If leading executives are surrounded by opportunists who not only do not dare to contradict them but articulate what they think their bosses want

*of all facts that precede individual and collective knowledge as all knowing and perceiving and as its cause. In the second form (that he terms “Realität”) it is the sum total of all facts that exist independently of all knowing. - Ich bin nicht sicher, ob ich Lay’s etwas komplizierte Definition von “Wirklichkeit” ganz richtig wiedergegeben habe, obwohl die Grundunterscheidung zwischen die zwei Formen mir klar ist.*

to hear out of anticipatory obedience, parallel worlds arise that endanger the long-term success of a company. People who exercise power or are given the feeling that they exercise power are more strongly influenced by the ease of information retrieval than by the retrieved contents – the feeling of power increases trust in one's own intuition.<sup>331</sup>

Can a company engaged in global competition be led by means of love in the sense of Erich Fromm? Cardinal Karl Lehmann is once said to have stated that no company can be successfully led with love, faith and hope as expressed in Paul's Letter to the Corinthians. This is certainly true. But, nonetheless, no one would found a company without faith in his own business ideas and without hope of success on the market. And without care, a sense of responsibility, respect for others and knowledge in the sense of a sober recognition of one's own strengths and weaknesses, talents and competencies leadership cannot be sustained in the long-term. This is confirmed by a great part of the modern literature on management.<sup>332</sup>

The requirement profile for business executives developed from the perspective of Erich Fromm's perspective on a humanistic ethics goes far beyond the competence folio that is mediated today in business schools. This is regrettable as:

→ the ability and the will to recognize that one's own

331 *Kahneman, D. (2012) 172.*

332 *Leisinger, K.M. (2018):113ff.*

reality is not the whole of reality

- the readiness to see and reflect critically on the pluralism of norms and interest as an enrichment
- the willingness and the ability to search for consensual principles and basic values of responsible action are recognized preconditions for taking appropriate decisions in complex situations.

The fact that self-referentiality is not productive for the solution of the majority of contemporary problems was pointed out years ago in a quarterly report by McKinsey. Copious research material indicates “that cognitive biases affect the most important strategic decisions made by the smartest managers in the best companies.”<sup>333</sup> According to McKinsey the most common errors are saliency biases (that lead us to overweight recent or highly memorable events) and confirmation bias (the tendency, once a hypothesis has been formed, to ignore evidence that would disprove it). “Particularly imperiled”, according to McKinsey, “are senior executives, whose deep experience boosts the odds that they will rely on analogies from their own experience that may turn out to be misleading.”

In order to counter these tendencies a profound change in corporate culture is necessary. The authors of the report plead for processes of judgment formation carried out by several executives, organized decision processes in that unconventional ways of thinking are

333 *Lovallo, D. and O. Sibony (2010).*

promoted, changes of perspective are attempted and the influence of “silo-thinking” minimized.

The values of the executive elite determine how a company defines its role in society. The value premises and virtues of the bearers of responsibility decide upon the choice of action options and their implementation in practice. Value sets determine that approaches, choices and judgmental criteria are given preference and what is to be regarded as important, desirable, good or bad. In my experience the personal value premises of top managers, their social awareness and the civil courage to stand up for their own convictions, even in the face of contrary winds, are the most important determinants of the ethical quality of a business enterprise. Alongside professional expertise and the willingness to work hard the personal virtues of responsible leaders and the entire company staff are among the most important resources and competencies a company has at its disposal. There are no ethical questions facing companies that do not imply present or future restrictions on their activities. For this reason top managers must find the “right balance” called for in the old philosophical texts and implement their balanced policies in their interactions with their stakeholders.

### 7.3.

## CORPORATE CULTURE

In an analysis of the circumstances that led to

different negative effects of the Corona crisis in different countries Malke Older makes a statement that can be transferred without change to business enterprises: Catastrophes do not happen in a vacuum, but can mainly be traced back to deficits in the institutional framework conditions.<sup>334</sup> When working out the damages incurred the deficits in the framework conditions must be taken into account if negative experiences are to be avoided in case of a recurrence. Deficits in the framework conditions are also important in the context of corporate culture.

In my experience there are corporate cultures in that problematic behaviour and actions are more likely to occur, as conditioned thinking and acting tends to encourage deviations from the path of virtue. Corrections undertaken when illegitimate activities become known, without changing the framework conditions that led people to act in an unethical fashion, merely combat the symptoms.

- When the fixed part of wages is relatively low and the variable part dependent on the achievement of certain goals is high, unrealistically high goals encourage unethical conduct. The goals set are achieved regardless of the path taken. This in turn leads to even less realistic goals in the following year as the performance of the past year has to be improved upon.

334 Older, M. (2020).

- When superiors create a “culture of fear” and criticism of irregularities is regarded as a lack of loyalty, staff members will look the other way when illegal actions are carried out. Superiors can then claim that they knew nothing and that the illegal actions were “regrettable individual cases”.
- When superiors themselves are guilty of unethical conduct and actions, bad models are created for the rest of the staff.
- When meaningful controls and ethical mindfulness are lacking, avoidable temptations arise, for example when making claims for expenses, giving presents to clients and the like.
- When blatant misconduct is not punished it becomes the new normality.

The fact that a well-known company in the German car industry has attracted attention for years through scandals (among other things “pleasure trips” with members of the works council, Dieseltgate, a racist advertising video) is proof of the glaring lack of insight into the deficits of the dominant corporate culture. We are not dealing here with “individuals” who have deviated from the path of virtue, as is readily suggested in such cases.

### **Culturally conditioned language, thinking and conduct**

Many intelligent people have said many clever

things about the concept of culture and the usefulness of its application to business enterprises.<sup>335</sup> I will restrict myself in what follows to a few ideas I regard as essential and will place the definition of Geert Hofstede in the center of my comments. For Hofstede culture is for a human community (including, therefore, business enterprises) the equivalent of personality for an individual person. It is:

*“the collective programming of the mind that distinguishes the members of one group or category of people from another. [...] The \*mind\* stands for the head, heart and hands – that is, for thinking, feeling and acting, with consequences for beliefs, attitudes, and skills”<sup>336</sup>*

Applied to business enterprises this means a shared value philosophy learned over time and lived out in daily practice. This leads to a collective self-understanding on the mission and the aims of the company and to a feeling for binding value convictions, norms and morale. This self-understanding creates a sense of identity, and determines the way the staff members live together in the company and the way of behaving towards stakeholders. It checks individual self-interest and places it in the service of the common goal.

Shared basic assumptions on non-negotiable values and their priority in dilemma situations are essential. The statements of Robert Bosch are exemplary in this regard:<sup>337</sup>

335 Schein, E.A. and P. Schein (2018); Deal, T.E. and A.A. Kennedy (2000).

336 Hofstede, G. (2001): 9-10.

337 The two following quotations are taken from <https://www.bk-luebeck>.

*“I have always acted in accordance with the principle that it is better to lose money than trust. The inviolability of my promises, the belief in the value of my goods and of my word, always stood above any transient profit.”*

And:

*“Every piece of work is important, even the smallest. Nobody should imagine that his work is better than that of his fellow workers. All should work together for the wellbeing of the whole.”*

When such attitudes or habits of thought are part of an organization’s DNA, a feeling for the right way of behaving and acting arises, because it is anchored in a shared set of basic values. Andreas Suchanek and Martin van Broock go into this point more deeply with their use of the concept of “understanding the game.”<sup>338</sup>

Like every other culture, however, corporate culture manifests itself not only in values (that first becomes visible when they are expressed in concrete behaviour), but also on the surface, in symbols, heroes and rituals, defined by Hofstede as follows.

→ *Symbols* are words, gestures, pictures and objects that are often only recognized and understood by those who are familiar with a specific culture. The words used in a particular cultural environment can

*eu/zitate-bosch-robert.html. Last accessed on 21.07.2020.*

338 Suchanek, A. and M- von Broock (2012).

have a totally different meaning outside that environment. Symbols are sometimes consciously used as a means of setting boundaries for outsiders, but also for the purpose of internal differentiation. In my experience invitations (or exclusion from invitations) to certain internal or external events have a symbolic character, as have travel privileges, expectations of punctuality at meetings and the like.

- *Heroes* are people who are regarded as role models. Depending on the prevailing corporate culture reference is made to people like Jack Welch, Steve Jobs or Paul Polman. Interestingly enough, reference is very seldom made to former prominent leadership personalities in one's own company. The reasons for this are often all too human in the case of contemporary bearers of responsibility.
- *Rituals*, defined as collective activities that are technically unnecessary for the achievement of desired ends, are regarded within the culture as important for the social collective. That the boundaries of good taste and human dignity may sometimes be overstepped in the context of so-called "initiation", "team-building" and "motivation" rituals is a side effect that is not restricted to occurrences among the elite troops of the Federal Army.

In my experience metaphors and narratives also allow us to draw conclusions on the way a corporate culture is lived out in practice. In informal talks in company seminars, in the breaks at work, or especially in case

studies, I have never heard the participants quote particularly sensitive, friendly and humane conduct and action as exemplary. The choice usually fell on “John Wayne” stories and examples of cowboy mentality in that people “let five be even” and cleverness was preferred to wisdom. As the storytellers usually think they are making a good impression with such stories, we can draw conclusions on the cultural practice of the company here – no matter what is propagated in written documentation.

Organizations might well have a generally binding culture and nonetheless contain very distinct sub-cultures. The marketing section of the company, the legal, the communications and the security departments can all have specific, distinctive cultural characteristics.

Essential elements of a corporate culture can already be recognized in everyday human interactions. As a trainee in the former J.R. Geigy Company in Basel I had the good fortune to make the acquaintance of a president of the administration, who did not find it beneath his dignity to greet the gatekeeper of the company and the internal postmen by name – he knew their names! He asked how they were keeping and expected an honest answer, as he was willing to help them if need be. He said “please” and “thank you”. The way top executives behave – in a cultivated way or not – shapes the climate in the whole house and says more than a visiting card.

## The risks of closed cultures

There is no “one right” culture for an organization. Depending on the different environments, cultural embeddedness or other specific factors various forms can be acceptable – within the corridor of respect for human dignity. Rigidity should be avoided in the culture of the organization. If a corporate culture encounters everything that comes from “outside” defensively and uses self-referentiality as its only learning method it will develop what Rupert Lay calls a “closed morality”<sup>339</sup> Unconditional obedience is demanded “from the top” and instead of independent well-reflected *action, behaviour* in compliance with orders is expected of staff members. The loyalty to one’s own group, to the collective “us”, creates a distinct moral understanding that is uncoupled from the moral understanding of the corresponding society. As the existing power relationships and the accompanying prevailing opinions can no longer be questioned, new input cannot be incorporated – and the organization distances itself from reality. All of this leads ultimately to problems that endanger the substance of any organization, be it a business enterprise, a political party or a Church.

A corporate culture must remain open to new ideas if the internal reality of a company is not to be the sole determining element of its thinking, decisions and actions, and acceptability and compatibility with the common good are to exist alongside profit orientation.

339 Lay, R. (1990): 44.

As has been explained above, good stakeholder relationships are highly recommendable in this context. Open corporate cultures require company representatives with critical virtues (for example civil courage, conflict tolerance, readiness to accept responsibility) and leadership personalities with the ability to weigh up their options in a responsibly way and to respond to situations with ethical musicality. With an open organization culture a company is in a position to communicate permanently with its social environment and to keep itself up to date on the needs of important stakeholders. It is one of the most significant tasks of top management to develop such a corporate culture, to live it out convincingly and to cultivate it in a sustainable fashion. However, cultural change takes time, and one should be cautious with statements on a new corporate culture. They give rise to expectations that the progress in introducing changes cannot keep pace with.

## **The Leipzig Leadership Model**

In consultation and cooperation with leading representatives of the German economy the HHL Leipzig Graduate School of Management has developed a leadership model that reacts to the new challenges of our times by providing orientation in the sense of a compass. It provides orientation for the development of a desirable and sustainable corporate culture. The image of man on that the Leipzig leadership model is based

is of great importance. The mothers and fathers of the model assume that:

- people are free and deserve respect that is shown by taking their values, interests and convictions seriously;
- the actions of people are subject to numerous empirical (biological, physiological, psychological, sociological and other) conditions. Both leaders and the led are people who can make mistakes. They are also more or less opportunistic and are always subject to situational influence;
- leadership as a means of influencing other people must always justify itself. Leadership personalities must show that the strategies chosen, the decisions taken and the measures implemented make a contribution to the greater whole (for example, team, company, society) and are ethically legitimated;
- people are creative, capable of learning and basically oriented towards cooperation. Their specific values, interests and convictions must be taken seriously. Leadership must always be characterized by respect for the dignity of one's fellow men and by acceptance of their freedom and their aptitude for cooperation.

Leadership means taking on responsibility for oneself, others and the future and the readiness to act as a role model. The necessary skills include not only the "tools" of leadership but also the corresponding willingness and a clear inner compass. A person who cannot

lead himself is not capable of leading others.

In a sustainably effective corporate culture the question of purpose – the question about the why, the goal and the aim of a task and the legitimation of a business model – must be asked in such a way that involves and motivates as many as possible of the stakeholders. The authors of the Leipzig leadership model realize that “even more”, “even faster” and “even better” are not credible goals in view of the limitation of the available resources. A culture that takes the following statement as a compass for its actions and conduct is preeminently fitted to ensure sustainable success for the company:

*“Firms exist not only because they produce products and services more efficiently than the market could. Their existence is founded at a more fundamental level on social backing, on a credible and reliable appreciation <sup>340</sup> of the public value a company creates. [...] Public value is first created or destroyed when the individual experience or conduct of persons and groups is influenced in such a way that it has a stabilizing or destabilizing effect upon the evaluation of social cohesion, shared experiences and the self-determination of the individual in the social environment.”*

340 HHL (2008): 10ff.



## THE QUESTION OF THE BUSINESS CASE

If a child asked its mother “Why can’t I tell lies, steal or take advantage of situations illegally?” most mothers and fathers would probably answer: “Because it is forbidden and will probably be punished.” There is no reason why the same answer should not be right when it refers to people working in business enterprises. Enough said about illegal activities.

The question “Why can I not do everything that is covered by the legal minimum?” is easy to answer for people of integrity. Actions carried out “to the best of one’s knowledge and belief” are oriented on “the best knowledge” one possesses and not simply on written law. The orientation includes the “shall” and “can” dimensions discussed above. Even the answer to the subsequent question “Should I make a contribution as far as possible to raising the ethical quality of business actions” is not too difficult to make. Acting in accordance with one’s conscience and making “conscientious” decisions is, properly understood, in fact action in one’s own personal interest. As many top managers as a matter of course enjoy expensive privileges at the cost of their company

(staggeringly high wages and pension entitlements, private jets, luxury hotels and other comforts), that are justified by special fiduciary duties, “business judgment” should also permit the accomplishments of the dimension under discussion here.

There are, nevertheless, academics who query the correctness of the assumption that sound ethics is good business.<sup>341</sup> The question of the business case of legitimate action is answered differently depending on the moral-philosophical school of thought that is advocated. Followers of Kant answer with “no”, advocates of utilitarianism with “yes”, whereas the supporters of situation ethics will say that “it depends on the circumstances”.

Immanuel Kant introduces the first section of his *Groundwork of a Metaphysics of Morals* with the following statement:

*“It is impossible to think of anything at all in the world, or indeed even beyond it, that good be considered good without limitation except a good will. Understanding, wit, judgment and the like, whatever such talents of mind may be called, or courage, resolution or perseverance in one’s plans as qualities of temperament, are undoubtedly good and desirable for many purposes, but they can also be extremely evil and harmful if the will that is to make use of these gifts of nature, and whose distinctive constitution is therefore called character, is not good.”*<sup>342</sup>

341 Thielemann, U. (2012) 231ff.

342 Kant, I (1785/1996): 49; 50.

A little later he puts it more precisely:

*“A good will is not good because of what it effects or accomplishes, because of its fitness to attain some proposed end, but only because of its volition, that is, it is a good in itself and, regarded for itself is to be valued incomparably higher than all that could merely be brought about by it in favor of some inclination and indeed, if you will, of the sum of all inclinations.*”

Kant’s distinction between a categorical imperative (one must act exclusively in one particular way) and a hypothetical imperative (the manner of action depends on the circumstances) also suggests that from a perspective of duty ethics “right” action cannot be made dependent on the expected success in a business context as well.

If the top executives of a business enterprise strive for the greatest happiness of the greatest number or are least willing to weigh up conflicting utilities against one another, then the answer to the question “Do we want to invest resources in areas beyond what is legally prescribed in order to increase our social usefulness and to reduce our ecological footprint?” will depend on the number of people whose position is improved as a result of the business strategy adopted.

Finally, if there are advocates of situation ethics among the leadership personalities, they will undertake complex considerations of the various goods in a specific situation and decide for the strategy that can be expect-

ed to produce the best results in terms of the *agape* calculation of Josef Fletcher.<sup>343</sup>

As a Manichean approach is not a good way to solve complex problems, enlightened leadership personalities will take decisions from case to case from a pragmatic perspective based on principles. This is particularly the case when, as in the present context, we are dealing with actions that go beyond what is prescribed by law.

Leaving aside all the seemingly rational but superficial arguments to the contrary, we can affirm that responsible ethically based actions and behaviour are justifiable because they alone are compatible with the dignity of those who make the decisions. To treat other people or nature worse than can be reasonably expected under the given conditions is unworthy of a person in a position of responsibility.

### **Illegitimate actions damage the common good**

The observation of existing laws and regulations is an ethical minimum that can be taken for granted and deserves no special recognition. As deviations from the path of legality are usually almost always discovered and punished, the self-imposed obligation to observe all legal requirements is the best means of avoiding risks -and hence is ultimately only a question of intelligence. There

343 Fletcher, J. (1967).

have been cases in that illegal and illegitimate actions were practiced, tolerated and covered up for years and the firms concerned have paid billions in fines, while the responsible managers have nonetheless been rewarded with bonus payments and high pensions. This is not only morally despicable. On account of its effects on the perceptions of the wider public it is also socially unacceptable.

If companies are sentenced to pay high fines, they must then economize in order to compensate for the extra costs. Their cost-cutting programs affect thousands of company staff who are not involved in the criminal activities, but nonetheless lose their places of work, their income and their means of existence. When managers who justify their high incomes with the heavy responsibility they bear and the immense risks they must take go scot-free, the acceptance of the market economy suffers and the sense of community in society is damaged. As a result, the political landscape changes and both companies and the general public suffer a loss of freedom.

Even legal action can, however, be illegitimate. Actions are called legitimate here that take into account all the available knowledge of their consequences and can be regarded as just and good because they observe widely recognized ethical principles, value convictions and justified social expectations. After weighing up all the options under discussion enlightened leadership personalities will prefer those actions and forms of conduct that

- have only an unavoidable minimum of undesirable effects on the physical and mental health of those affected by the activities of the company and also actively create working conditions under that people feel good and can unfold their potential;
- have only an unavoidable minimum of undesirable effects on the environment and future generations because they go beyond what is legally prescribed and use the technical means available and new business models in order to combat the causes of environmental destruction and to restore nature by making contributions in the “can” dimension;
- not only analyze and, if need be, counter negative effects relevant to the sphere of human rights over the entire range of their business activities in accordance with the *UN Guidelines for Business and Human Rights*, but also actively promote the strengthening of human dignity, and
- exclude corruption as a lubricant for business success and contribute to the development of a feeling for the kind of interaction with political and social counterparts that can be regarded as legitimate. In this way a corporate culture develops that makes the corresponding behaviour and actions in everyday business life a matter of course.

Doing good in this way for its own sake deserves moral recognition, but it has its price. Additional costs and investments always occur that often cannot be com-

compensated for by raising the price of the company's products or services, when

- only a minority of customers or consumers is willing to honor better working conditions and higher social security benefits by accepting (slightly) higher prices. The deplorable state of affairs in the meat processing industry in Germany is a good example; under the prevailing market conditions the higher costs incurred lead to a diminution of profits and competitive disadvantages;
- there is a lack of willingness *to pay* for the acceptance of environmental regulations corresponding to the state of scientific research that are not (yet) legally required but also lead to loss of profits and competitive disadvantages;
- the company refuses to sell products (including dual use products) and services to customers who will use them for illegitimate purposes, thus leaving competitors who do not share such scruples at a commercial advantage.

Of course, one can be exasperated over the hypocrisy of fellow-citizens who put on moral airs about bad working and environmental conditions in far-away countries, but are not themselves willing to pay the price for social and ecological improvements – but this does not help us to change the status quo. Honesty requires us to mention these costs, and to point out that ultimately a sustainable improvement of ethical

quality without tightening up the laws on business activities is only possible on a wide scale when a majority of customers and consumers appreciates the activities of morally upright companies and contributes to their endeavors.

### **Acting reasonably without endangering the substance**

When leading executives express opposition to additional contributions to the improvement of the ethical quality of business actions they usually refer to the arguments of Milton Friedman (“the business of business is business”) or to the unreasonableness of the demands made on the company. As far as Friedman is concerned, his statements are usually quoted incompletely as far as the issue of economic unreasonableness is concerned, as his words only apply to firms that are scarcely able to balance their accounts with strictly legal activities (borderline companies). For the relationship between normatively conditioned business policies and competitive profit-making the views expressed by Joshua Margolis and his colleagues in their meta-analysis still apply: “There is no financial penalty for corporate social performance.”<sup>344</sup>

It is fully indisputable that performances in the “shall” and “can” dimensions of responsibility cannot ignore economic rationality. It must, however, be embed-

<sup>344</sup> Margolis, J.D. H.A. Elfenbein and J.P. Walsh (2009).

ded in a social and ecological framework that promotes human rights. There can be no question of endangering a company by burdening it with unbearable costs. Its contributions must be voluntary, and they must improve conditions for man and nature without threatening the economic viability of the company. Here are some examples:

- Wages that permit a family to enjoy a worry-free life, even when freely negotiated wages in the supply chain or in developing companies would be far lower on account of the greater level of unemployment and under-employment (*living wages*).
- Voluntary social contributions, that are not obligatory in low-income countries, but would be enormously important for the employees, for example contributions to old-age pensions, health insurance, canteen services, contributions to wealth building by participation in business success and the like.
- Improvement of chances on internal and external labour markets (*employability*) by means of training and further training.
- Implementation of fair-trade criteria in the supply chain, combined, however, with the willingness to take the resultant higher costs for the buying prices into account.
- Pro-active environmental investments based on the state of science for the improvement of the product portfolio, the production process and the transport infrastructure, accompanied by the necessary corre-

sponding training of staff.

- Contributions to the protection of natural capital, and the strengthening of social capital in all countries in that the company is active.
- Observation of the UN Guiding Principles for Business and Human Rights,<sup>345</sup> and in this spirit also:
- Rejection of business relationships and sales potential when the products and services involved could be used for goals and purposes that are incompatible with human rights and the dignity of man and the right to live in peace and freedom.

It is a fact that many morally imperative actions do not pay off from a short-term or egoistic perspective. It would be dishonest to question or ignore this point. If ethically conditioned actions were more or less automatically reflected in the business indicators for success and would pay off like a carefully calculated investment there would be no need for discussion here. All business participants would act at the highest level of morality, although possibly from the wrong motives.

### **Indications of a possible business case**

Research has been carried out for many years on the

<sup>345</sup> *United Nations* (2011).

question whether “doing good” leads to tangible advantages for a company.<sup>346</sup> The results of this research indicate that “doing good” is at least not harmful, but they cannot be unequivocally presented as an answer to the question whether the acceptance of additional responsibilities pays off or not. Simplifying catch-lines must be taken with a grain of salt,<sup>347</sup> for a wide variety of reasons:

- Different studies work with different definitions of the social responsibility of companies and on the basis of different notions of the ethical minimum and what is relevant beyond it.
- Differing branch-specific aspects (for example between a company in the extractive sector and a pharmaceuticals company) play a large role, for example because of the environmental burden of normal business procedures in the one case and the access to life-saving medical products in the other.
- The time horizon of the measurements is important because of the time interval between sowing the seed and reaping the harvest of exemplary action. Both the building up of trust and the achievement of moral recognition are time-consuming factors (and they can both disappear overnight).
- There is no mono-causal relationship between a

346 Orlitzky, M., F.L. Schmidt and S.L. Rynes (2003): 403ff.; Margolis J.J. Walsh and D. Krehmeyer (2006); Martinuzzi, A. et al. (2010); Galant, A and S. Cadez (2017) 676ff.

347 Kelly, M. (2004)

given factor and economic success. Sustainably profitable business activity is always and under all circumstances the result of a complex strategy mix, in that the satisfaction of the client plays a part, be it on account of the quality of the product, its innovative character, convincing marketing or other factors. “Good” does not, therefore, mean the same as “successful” (on this point see Levi-Strauss).

- People with negative a priori judgments will not be converted to a positive judgment by even the best achievements in the sphere of responsibility. Just as there are always people who impute dark motives to every kind of scientific activity when they do not confirm their personal convictions,<sup>348</sup> so too there are contemporaries who brand “business” generally as a power for evil. In such cases positive case studies have no chance of being registered and recognized.

On taking a closer look we can, however, make out a series of positive effects of ethically reflected action – given otherwise unchanged conditions – that positively influence business outcomes. McKinsey, an organization that cannot be suspected of being susceptible to idealistically distorted judgments, recently quoted a meta-analysis of 2000 studies on the effects of additional social, ecological and governance endeavors on returns on equity that came up with very gratifying results:<sup>349</sup> Raising

348 *Specter, M. (2017).*

349 *Sisodia, R. et al. (2014).*

the ethical quality of business actions -in the present case by consistently implementing the results of reflection on the meaning and purpose of the company and its reasons for existence from an overarching perspective – had positive effects on sales and profits because:

- it promotes trust and strengthens the loyalty of clients at a time when the sensitivity of the client for the consideration of social concerns is growing;
- the assumption of increased responsibility for the environment throughout the entire process of value creation increases efficiency in the use of energy and water and can thus lead to cost savings;
- it leads to advantages in the market for good employees and raises the motivation of staff;
- it raises the sensitivity for changing social expectations, political goals and industrial standards, and so makes pro-active action possible.

McKinsey reports here on a line of argument that has for a long time been a part of the discourse on the business case of ethically reflected action.

### **Motivation of staff**

Neither the existing members of staff nor qualified job seekers evaluate the attractiveness of a company on the highest achievable income alone. For the best gradu-

ates of the best education and professional training institutions the possible wage level is internationally fairly similar. The positive image of a company, a publicly perceived attractive corporate culture and the expected recognition by colleagues are of great significance. And so factors such as a friendly corporate culture, a positive basic attitude of leadership personalities, decent retreatment of team members in a harmonious atmosphere, opportunities for self-determined work, enjoyment of work, flexible, family-friendly working hours (work-life balance) and offers of further training move into the foreground. Apart from the minimum needed to meet living costs, money alone makes no one happy, and this is true of companies as it is of any place of employment.<sup>350</sup>

Clinically ice-cold or even exploitative relationships with employees, despotic bosses or envious colleagues do not inspire people to extraordinary performances or sustainable commitment. People do not merely want to work for a particular company; they would like to be part of an institution they can look on with pride. Morally sensitive personalities in particular wish to contribute in their work to things that are dear to their hearts as private individuals. Whether this fulfillment of meaning in their lives derives from an exemplary practice of

350 *Whereby graduates of economics differ significantly from those of engineering or the social sciences. See Statista (2019), online under <https://de.statista.com/statistik/daten/studie/1811885/umfrage/kriterien-fuer-die-wahl-des-arbeitgebers>. Accessed on 05.07.2020. See also Impulse (2018): <https://www.impulse.de/management/personalfuehrung/geld-motivation/7300611.html>. Accessed on 05.07.2020.*

environmental and social responsibility or some other form of commitment to the common good is ultimately of no consequence.

Staff members who sense that their company is seriously interested in maintaining the moral quality of its activities see their work as something more than just earning a living. Companies of this kind have to cope with FEWER changes in personnel and less sick leave. Where people are taken seriously and participate at all levels in the decision-making process in their sphere of competence a greater degree of efficiency and economizing is possible than is otherwise the case.<sup>351</sup>

When mobbing and exclusion are part of the working climate, when Greenpeace is protesting in front of the factory gates or NGOs or churches are calling for boycotts this is just as damaging for the staff and the company as in cases in that a growing regiment of company lawyers are trying to ward off the consequences of violations of law and morality as cheaply as possible. In such situations good staff members will leave the organization, leaving behind mediocre or morally indifferent colleagues with whom top-level performances cannot be achieved.

Practiced ethical responsibility is talked about and even becomes the object of serious publications from outside the company or of university case studies. This has further cumulative positive effects. When a com-

351 *Leisinger, K.M. (2018); Experteer (2019)*

pany is considered to be promoting the common good, its direct environment (local inhabitants and the local community) looks upon it with joy and pride. Success in this regard in turn strengthens the positive identification of the staff with the company – fathers and mothers can proudly tell their children about the great things the company they work for does.

What Jakob Burckhardt once said about individuals also applies to companies. They are not merely what they are; they are also what they have set themselves as an ideal. Even if they do not fully live up to the ideal, the desire alone to do so characterizes a part of their nature. Talented and motivated staff members are the most important asset of every organization. Talented, well educated and hardworking people are, however, an extremely scarce resource. As they can choose where they wish to work and the remuneration packages on the labour market are comparable, endeavors to ensure that they have a good working climate and can be proud of their company are of particular importance.

### **Reduction of interactional and frictional costs**

If a listed company in the USA is caught violating legal regulations it is not only faced with high penalties; it may also have to accept the placing of a monitoring trustee (watchdog) in the company to control its – now chastened – business activities. The costs – up to 800

dollars an hour – also have to be met by the company. Not only is a lot of money at stake; there is also a subtle disturbance of the normal business procedures. But this is only a part of the problem of interactional and frictional costs we are discussing here.

Customers nowadays are not only seen in a narrow sense as the recipients of products and services, but are defined more comprehensively as stakeholders. Apart from ensuring the quality of their products and setting a fair price for their goods companies in modern societies are also expected to take on a wider responsibility towards the environment and society and to contribute to the achievement of social goals.

What this additional responsibility looks like in detail can be decided ultimately by the leadership personalities of the companies, but they cannot determine the entire decision-making process on their own. It is the sum total of stakeholder interests that defines the responsibility spectrum of the company in its full dimensions. What the company finally does is the result of a complex and open process of negotiation with the stakeholders.

With the increase in social and ecological problems social expectations and the sensitivity for legitimate business activities changes. The larger a company is, the greater the expectations in the “shall” and “can” dimensions. When a growing number of people no longer trusts the established forms of the economy and the state (democracy) and the accompanying values in

Germany because they feel they have been left behind or that the companies are acting illegitimately, then the companies themselves are directly affected.<sup>352</sup> If companies do not take changed expectations seriously enough, the problems of acceptance will grow, even when its activities are strictly legal. The consequences are actions and demonstrations critical of the company that may even go as far as calls for the boycott of its products.

Many legally operating companies have made painful experiences because what they have done to the best of their knowledge and belief did not correspond to social expectations.<sup>353</sup> Whether a critical public demonstrates in front of the factory gates, church institutions call for boycotts or the media “put the pressure on” by means of critical reporting, this always means that the management of the company concerned is taken up with defensive activities and is not free to shape the future. It also means that the staff comes under pressure to explain the activities of the company in their private sphere.

Problems do not disappear by ignoring or even denying THEM. The ostrich that sticks its head in the sand will quickly become aware of the vulnerability of

352 Theurl, T. (2013); Küsters, H.J. (2018).

353 For example, in the case of the oil platform Brent Spar in 1995 the procedure adopted by Shell was legal and, in regard to the damage to the environment, it was the lesser evil in comparison with alternative procedures. Nonetheless there were loud protests and lawsuits. See online <https://www.greenpeace.de/sites/www.greenpeace.de/files/publications/pe-mess-fehler-brent-spar.pdf>. Accessed on 05.07.2020.

its rump. Companies are not only pre-eminent actors as far as their financial potency, organizational ability and efficiency are concerned; it is also expected of them that they should take the lead in promoting social innovation.<sup>354</sup> Without contributions from the private sector in the “shall” and “can” dimensions of responsibility the complex environmental and social problems of our times cannot be solved. Growing disparities and discontent also change the political framework conditions in a less attractive direction – and this in turn limits the freedom of business enterprises to shape the future.

Without good products or services that can be brought on to the global market profitably by intelligent managers purposeful ethical endeavors will not lead to commercial success, but without a philosophy of responsibility founded on ethical principles long-term commercial success cannot be guaranteed, no matter how good the products are. This is also proved from a completely different perspective by a study of Ernst & Young.<sup>355</sup>

The social acceptance of business success, or, to put it in a less value-neutral way, of profit does not ultimately depend on its absolute size, but on its appropriateness, that is to say on the evaluation of the way it was achieved. We can assume that the accusation of “excessive profits” will not be heard or will be much more seldom heard when the company contribution to the

354 *Edelman Trust Barometer (2017): slides 45 and 46.*

355 *Ernst & Young (2019).*

common good and the moral quality of its content are beyond doubt.

### **Sustainability of company success**

For rational people at least the success of a company cannot be measured exclusively by the size of its annual profits. In many cases the annual profits of single years could not be increased without explicit economizing endeavors achieved by sacrificing the future security of the company (for example by cutting or putting off investments, research projects or training programs). No one who is striving for sustainable success will cut investments in the future simply to achieve a higher profit in one particular year.

For companies the achievement of profits is what food intake is for all human beings: an absolute necessity as one cannot survive without nourishment. Very few people, however, would regard the intake of food as the central meaning of human existence. The good reputation of a company is one of its most important assets, even though it does not appear directly on the balance sheets and only affects commercial success in a very subtle way. Like all the important things in life, the good reputation of a company cannot be had for nothing.

The implementation of corporate maxims calls, therefore, for courage in setting and implementing high standards in research, marketing, personnel issues, wage and salary policies, environmental policies, product

range and so on. This is an ongoing process, not a finished project and consequently calls for incessant and resolute endeavors of the top managers to create the preconditions at all levels for the achievement of the desired standards in daily practice. This involves costs and effort, but it is an investment in future social acceptance and appreciation – and this in turn guarantees the social “*license to operate*”.

An obstacle often encountered in practice to long-term business activities in the properly understood long-term interest of the company stems from the incentive systems that make short-term profitable actions more attractive. As a result, the future disadvantages of such a policy become a problem to be ironed out by the decision-makers in the future.

### **The maintenance of corporate freedom**

Representatives of the business world often complain – and often rightly so – about a very high and partly increasing density of legal regulations and administrative requirements. Corporate freedom cannot be exercised because of an ever-tightening corset of state regulations that endanger the position of Germany or Switzerland as locations for business enterprises. These concerns are well founded; less state in the various economic spheres could noticeably enliven the commitment of companies.

However, there are problems the market can solve

and others that place too heavy a demand on its capacities. It is not simply a question of yes or no to regulation as such, but, yet again, of finding the right dose. Of course, business associations and employers' organizations will define the acceptable level differently than trade unions or Greenpeace, but this is a natural feature of democratic societies.

Nonetheless, many arguments can be brought in favor of a "slim state" and the dismantling of unnecessary regulations. It cannot be right that every new government passes new laws without declaring the foregoing old laws invalid. It would be better if laws contained expiration dates ~~at that~~ OF their meaningfulness and the need for their extension can be examined. Normatively desirable action cannot be adequately achieved by regulations without risking an undesirable proliferation of state activities in all spheres of life. When regulation increases, the freedom of companies in going about their business is diminished and an inflation of a supervisory bureaucracy financed by the taxpayer occurs. It is often questionable whether the costs involved are justified by the results achieved.

On the other hand, not everything that is legal in, for instance, technological border areas can be regarded as legitimate. Knowledge of the risks and uses deriving from new technologies is greater in the companies developing them than in parliamentary committees. There are spheres of action, therefore, in that voluntary self-regulation by value management is called for. Value management involves the definition of action norms and

value priorities, their transparent implementation and reporting on the experience made in order to assess the level of progress or lack of progress achieved. It is not only more favorable in terms of costs, but also enables a greater flexibility in implementation than general laws.

Anyone who wishes to avoid further regulation of the economy and to contribute to the correction of mistaken legal developments must credibly demonstrate the ethical responsibility guiding his conduct and actions. The right to freedom can only be claimed as a correlate of the acceptance of responsibility. If corporate freedom is abused the call for control and supervision will grow stronger and the administrative authorities and the responsible politicians will be compelled to react. The freedom to undertake technical developments, to expand economically and to utilize environmental resources must be embedded in a network of moral norms. The only alternative to increasing regulation by the state is a demonstrably functioning self-regulation

### **Selective competitive advantages.**

The quality standards and preferences of consumers decide upon the sustainable success of a company. As a result of the opening of national economic boundaries and the increased access to information, markets are becoming more transparent and the consumers are gaining in sovereignty. The feedback of external clients is more

important and more honest than that of the internal departments, as their buying behaviour ultimately decides on success or failure. Short-term striving for profit at the expense of social acceptance can, therefore, turn into a Pyrrhic victory.<sup>356</sup>

There are, however, many indications that the moral convictions people communicate are not reflected in the actual allocation of their purchasing power. Between the need to buy in a socially just and ecologically sustainable way and the temptation to hunt for attractive bargains there is a gap that Leon Festinger called cognitive dissonance.<sup>357</sup> It would also be far too optimistic to assume that the majority of consumers go to the trouble of collecting all the available information on the environmental and ecological footprint of a product before deciding to buy it.

It remains, however, a fact that the influence of moral elements on consumer behaviour is growing. Individual ethical convictions and moral attitudes have come to play an important role in purchasing decisions; the moral quality of a product is felt to be a positive accompanying value by an increasing number of people. This can serve to bind consciously acting clients over and beyond the reliability of the quality and a competitive price-performance ratio.

*356 That this is not always the case is shown by the current market successes of those car companies that behaved particularly infamously during the diesel scandal.*

*357 Festinger, L (1957); Greenpeace 2015).*

This is a decisive market advantage particularly when a company offers products and services that are comparable in quality and usefulness with those of other companies. In the pharmaceutical industry one speaks here of “me-too” products. A growing number of aspirational consumers does not only pay attention to the use value, fashionable externals and the quality of the product when buying. They are also concerned about the humane, social and ecological conditions of its production.<sup>358</sup>

The critical debate on social interests in the contexts of a company’s need for action, characterized by Eugen Buss as a “communicative market public”, has become one of the most important guiding principles of economic action.<sup>359</sup> A company that wishes to assert itself in international competition must know its clients and their needs not only in regard to all the details of its products and all its markets; it must also be in a position to satisfy them on a broader basis. Intelligent leadership personalities regard their clients as well-informed citizens who must be taken seriously and not simply as abstract units on the demand side of their business.

When clients attribute legitimate action to a company a “relationship of trust over and beyond the economy” arises – a surplus value that is rewarded by an enduring loyalty of the clients in both the narrower and the broader sense of the word. In a globalized economy this

358 *Leisinger (2018): 150ff.*

359 *Buß, E. (2019): 137ff.*

is particularly true when all the competitors fight with the same weapons, the products grow more and more similar and the profit margin sinks. Ethically validated conduct and action adds an additional positive element to the instrumentation of the company.

And, finally, companies that reflect ethically on their actions and act accordingly anticipate in many regards investments and forms of action that will years later be forced upon their competitors by means of legislation and the interventions of the public authorities. Companies that engage proactively in ethical reflection thus set the standards for the future conduct of their branch, save substantial costs in many cases, and so further improve their competitiveness. Websites that cite companies with excellent responsibility performance in their case studies contribute to the raising of the reputation capital.<sup>360</sup>

## **Advantages on the capital market**

It must not necessarily happen that companies caught behaving immorally will automatically be “punished” by falling revenues and share values. If we are not dealing with massive deviations from the path of virtue, revenues for the year of the disclosure will remain

*360 For example, <http://www-ethicalperformace.com/bestpractice>. Accessed on 05.07.2020*

largely unaffected. A well-known German car company recorded new sales records in the middle of a fraud scandal. High dividend payouts by firms in the tobacco or alcohol branches attract both insurance companies and private investors regardless of the impact of their products on the health of the population.

Share prices that possibly sink as a result of negative publicity usually recover after a lapse of time or as a consequence of an overall good development on the stock exchange. If punishment, in whatever form, were to follow in the wake of misdeeds as a matter of routine, the costs of immoral action would be so obvious that taking illegal or moral risks would be sheer stupidity from a purely business point of view alone. But, as has been said, this is often not the case.

The days in that investment decisions are taken in a moral and social vacuum are, however, a thing of the past. This is not wishful thinking on the part of incurable idealists, but a fact that is reflected in the economic sections of serious newspapers.<sup>361</sup> Money from church assets, or from important pension funds such as the fund for public employees in California (CalPERS, managed assets of 351 billion dollars in 2017) or the state pension fund in Norway (managed assets of 3828 billion euros in 2018) are invested in accordance with moral criteria. They take into account, among other things, the structure of company activities, environmental performance, human rights aspects, gender criteria,

<sup>361</sup> Schäfer, M. (2017).

the product portfolio (tobacco, alcohol, weapons, pornography, games of chance or atomic energy are excluded) and also product safety and other ethically controversial issues such as animal protection.

The question whether financial investments in ethical undertakings play an important part in a better, equally good or worse performance cannot be answered unequivocally. A meta-analysis<sup>362</sup> comes to the (expected) conclusions:

- There are no exclusively ethically conditioned investment inherent factors that automatically lead to better, equally good or worse outcomes: Market conditions and the period under observation always play a large part.
- The majority of analytical research studies comes to a neutral result. There are no significant differences in the risk-weighted in comparison to conventional investments.
- But there are no indications that ethically conditioned investments bring worse returns than conventional investments. One can, therefore, invest in accordance with ethical criteria without being “punished” financially. This disposes of an important argument of opponents of explicit endeavors to take morally justified responsibility into account, namely that the profitability of the entrusted means must be maximized without taking any other desiderata into account.

362 Sjöström, E. and S. AP-Fonden (2015)

The fact that ethically acceptable business activities can in the course of time offer a chance of outperformance is per se good news<sup>363</sup> – but not a guarantee. Only when all the other investment criteria (security, rentability, future opportunities, risks) are equally fulfilled can ethically conditioned investments bring a measurable financial advantage because they minimize risks involved in unethical actions. When ethical investment funds invest to a significant degree in a particular firm this can be an impulse for an attractive price development. But the reverse has also shown to be true. When the sale of ethical investment funds is recommended, the value of the shares affected usually drops.

The future perspectives of ethically conditioned financial investments are positive. Firstly, there is in the meantime an established and expanding market for ethical investments. Whether this remains so in view of the possible financial constraints of the post-Corona period remains to be seen. Secondly, we can safely assume that the general social pressure for higher moral standards spills over into the sphere of economic activities. Whoever has starting advantages here will profit in an above average way from the changed patterns of thought and behaviour among consumers. Here too, however, it is not possible to draw simplified conclusions. It is not the case that investments in moral performance are always and in every single case the most profitable.

363 *Schwyzer Kantonalbank (2019)*

## Sobering experiences

The expectation of public applause or direct commercial advantages should not in any case be the primary motivation of top managers for raising the ethical quality of their business actions. Apart from the willingness of customers to pay, both of them depend to a high degree on temporally determined environmental factors on that they have no influence and on great fluctuations in popularity. The decisive source of motivation of leadership personalities stems from their inner convictions when choosing a course of action. We come back here once again to Immanuel Kant's notion of the "good will" based on inner conviction so to act as if one's actions could be the basis for a general law.<sup>364</sup> This calls for leadership personalities who correspond to the requirement profile described above.

But even if the personalities at the top executive level of business enterprises possess this good will and wish to implement it against resistance, it is by no means guaranteed that ethically reflected actions will be enduringly possible in a differently motivated environment like the financial sector or the world of clients. This can be shown by two prominent examples from the multiplicity of thoroughly researched case studies<sup>365</sup>:

364 Kant, I (1785/1997).

365 O'Toole, J. (2019)

## LEVI STRAUSS<sup>366</sup>

The history of the Levi Strauss Company can be traced back to the middle of the 19<sup>th</sup> century and has been shaped by the personality of the founder of the firm and his successors up to the most recent times. Until his death at the age of 90 Walter Haas senior was in his office every day as a mentor. The most successful products in the history of the company were the legendary 501 jeans. The fact that actors like James Dean wore Levi's jeans in the fifties of the last century made them one of the most coveted articles of clothing by America's teenagers.

The leadership personalities of the company committed themselves at a very early stage to impressive standards of social and ecological responsibility. As early as the 1920s workers at all levels participated financially in the commercial success of the company, in times of recession flexible working models were developed and implemented in order to avoid dismissals and the resultant existential hardships of the affected families. Pension schemes that were unusual at that time put former workers and staff in a much better position than the employees of any other firm in the textile branch and beyond it. The leadership personalities of Levi Strauss felt greatly obliged to the seamstresses and seamsters in the traditional factories in and around San Francisco.

366 O'Toole, J. (2019) 176-205.

They were predominantly Afro-American and Asian workers from the lower social layers of society who had enjoyed little or no school education. Special training programs were developed and implemented for them in order to open up new and attractive opportunities for employment and promotion.

As a result of the ethical commitment “What we do for one, we do for all” the staff in the upper echelons of the hierarchy enjoyed scarcely any privileges. In the 80s and 90s of the 20<sup>th</sup> century, at a time when others were even avoiding discussion on the new health problems, the company introduced a support program for AIDS patients. The company’s obligation “*to do no harm*” led early on to a concrete reduction in its ecological footprint (energy, water, chemicals) and was also extended to include the duty of care towards companies in the supply chain. Between 1960 and 1980 Levi Strauss was by far the leading company in regard to social responsibility.

The strategic “disadvantage” of this loyalty was that Levi’s failed to close factories in the San Francisco area and to move to low-cost parts of the world. Levi’s paid seamstresses and seamsters in San Francisco \$3.30 US dollars per hour, whereas the workers in competing companies in South East Asia earned only \$0.40 dollars per hour for comparable work. This led to massive cost disadvantages in relation to competitors producing in South East Asia.

Furthermore, in the 1980s and 1990s the attrac-

tiveness of the legendary 5001 jeans declined. Fashion-conscious young people, particularly young women, demanded new styles, different colors, different cuts, stretch models and so on every year. Consequently the revenue from Levi's traditional (and relatively expensive) denim jeans declined from year to year. Levi Strauss had missed out on the changed trends in fashion and its competitors steadily diminished its share of the market.

As a result the company ran into great difficulties. New managers, who had little interest in the traditional family values of Levi Strauss, took over responsibility. With its old management philosophy Levi's could not deliver what Wall Street increasingly demanded in the 1980s, namely quick and steadily growing quarterly profits. When parts of the production were transferred to South East Asia and Costa Rica a mixed calculation became possible, but even in these countries the company paid higher wages than its competitors. In addition, in this new and unfamiliar environment, accusations of corruption and mistakes in the environmental field were leveled at the company.

The erosion of profits grew worse and shareholders began to demand drastic changes in the company's strategy and social practices. But these were not compatible with the maintenance of the traditional company values of the members of the family who were still in the company. As a consequence the remaining family members bought the company back and took it off the stock exchange. In the spring of 2019 Levi's returned to the stock market, but (as of spring 2020) with little success.

On 14 July 2020 THE STOCK FELL clearly below the level on the day of issue.

It would be too simple to argue that the high degree of social and ecological responsibility assumed by the company was not financially realistic under the conditions of the textile market. More issues were involved than just the cost factors. Worldwide the sale of blue jeans increased while Levi's sales declined. Consumer preferences and buying habits had changed. Cheap providers from China and India moved aggressively into the market and attacked Levi's highly priced products. The charisma of the Levi brand faded. The robustness of the jeans was no longer an incentive for young buyers to pay more. They wanted different jeans in different styles every year. In addition to these quality problems Levi's had to finance an expensive shopping chain, whereas their competitors sold more and more via the internet. The late reaction to these changes was the main reason for the problems that arose. The additional costs for the assumption of social and ecological responsibility were a part of the problem, but under favorable conditions they could have been partly cushioned by a better overall management strategy.

### **Unilever** <sup>367</sup>

We can take Paul Polman of Unilever as proof of the correctness of the above statement that only excep-

367 O'Toole, J. (2019): 65-68.

tional leadership personalities can achieve exceptional results in regard to the assumption of social responsibility in an otherwise “normal” company.<sup>368</sup> Under his leadership the programs for the improvement of environmental practices and working conditions begun in the company and its supply chain in 2005 were extended and intensified. In the Unilever Sustainable Living Plan<sup>369</sup> he set ambitious social and ecological goals in 2010 that he wished to achieve in ten years. Particularly ambitious was his aim to reduce the ecological footprint and to improve the social impact of the company. By 2020 Unilever wished:

- to improve the living conditions and the health of over a million people;
- to reduce the ecological footprint (greenhouse gas emissions, water, waste, packaging etc.) by half,
- to improve fairness at the place of work, including gender justice wherever Unilever operated and to introduce special programs in order to reduce poverty in low-income countries. In this connection Unilever committed itself at an early stage to implementing the *UN Guiding Principle on Business and Human Rights*.

368 *New York Times* (29/30-08.2019). See also the video: “Unilever CEO Paul Polman: Pursue your purpose”, online at [https://www.youtube.com/watch=y3M\\_FVerkE](https://www.youtube.com/watch=y3M_FVerkE). Accessed on 05.07.2020.

369 *The Unilever Sustainable Living Plan* Available online under <https://www.unilever.com/sustainable-living>. Last accessed on 05.07.2020.

All of this was to be accompanied by a doubling of sales. A complex process of adapting business strategy to the achievement of these goals began. The product portfolio was changed and the consumption of water and energy substantially reduced. An innovative cooperation with OXFAM<sup>370</sup> – common projects and Oxfam representatives on the Unilever Sustainable Sourcing Advisory Board – led to new insights and changed patterns of thought. Last not least, the goal of short-term profit maximization was explicitly abandoned under Paul Polman and, as a consequence, the quarterly reports were scrapped.

While Paul Polman achieved worldwide recognition as the most important activist in the private sector for the propagation of more social responsibility and Unilever conquered first place on the Corporate Responsibility Hit parade for many years, sales and profits did not develop along lines the financial sector of the company felt to be appropriate. It demanded that Unilever should reduce its social commitment and accelerate its growth in sales and profits. Aggressive financial investors saw in the abandonment of social and ecological investments over and beyond what was required by law an attractive opportunity to increase profits and so to improve the share prices in the short-term. Paul Polman rejected this wish.

This decision was not the least important factor leading to a take-over bid of 143 billion dollars by the

*370 Oxfam's work with the private sector is available online under <https://www.unilever.com/sustainable-living/>, last accessed on 05.07.2020.*

ketchup producer Kraft Heinz. Polman rejected the offer, referring to the incompatibility of the two company cultures. In his opinion Kraft Heinz accorded too little importance to the themes of social responsibility, fairness, diversity and sustainability in comparison to Unilever and was striving above all for short-term profit. Polman was helped in this situation by the fact that both British and Dutch law obliged the governing board to protect the interests not only of shareholders but also of stakeholders. A further factor helping Polman to persist in his resistance to the offer was the support of large-scale investors such as Norges Bank for Polman's corporate responsibility philosophy.

A remark by Paul Polman in the context of the rejection of the take-over bid (substantially supported by Warren Buffet aiming others) permits us to draw conclusion on the character traits that distinguish leadership personalities from other leaders of companies. He states that it is more important for him to serve many people through responsible work than to make a couple of multi-millionaires even richer...

The take-over bid was subsequently withdrawn. Unilever carried out a program designed to increase productivity but left the essential pillars of its social and ecological performance untouched. Paul Polman retired as CEO of the company at the end of 2018 and founded the sustainability foundation Imagine that is devoted to social projects.<sup>371</sup>

*371 On this point see <https://europeanclimate.org/member/paul-polman/> and <https://imagine.one>, accessed on 05.07.2020.*

## Provisional summary of the business case

There are no simple causal connections demonstrating that the endeavors to improve the ethical quality of business actions leads directly to better commercial performance. The success of a company always depends essentially on external factors such as the trade conflicts between the USA and China, the tensions in regions that are important for the supply of energy, the manipulation of prices in the oil sector, or failures in the budget policies of member states of the EU. Pandemics such as Covid-19 in the spring of 2020 can scarcely be influenced by managers but are nonetheless of considerable importance for the success of a company. The skill of leadership personalities in recognizing the needs of customers, predicting market developments and managing investments and costs well remains the most important preconditions for sustainable success. This applies particularly to listed companies. As long as the financial sector draws almost exclusively on economic data when evaluating a company, it will be difficult for those companies that commit themselves to social and ecological activities over and beyond what is prescribed by law. The fact that, in the context of the *2030 Agenda for Sustainable Development*, the costs of pro-active action are in all probability lower than the costs for doing nothing plays no part under such circumstances, because the cost of doing nothing will be borne by everybody in the future, whereas the costs of pro-active action are met today in the cash flow and short-term balance sheet of

a company. Costs for additional investment in the social quality of business activities arise immediately, are quantifiable and measurable, whereas possible yields from such investments mostly only accrue at a later point in time than the reporting period and to the benefit of company leaders in the future. Concrete competitive disadvantages of a higher level of social, ecological and human-rights commitment can be particularly expected in the sphere of cheap generic products. Here the price is the essential competitive element. When the main competitors come from countries in that normative elements and ideas of sustainability are not (yet) pronounced a competitive advantage arises among consumers who are sensitive in regard to prices but not to ethical questions. In this context the success of chain stores dealing in cheap products in the textiles branch is particularly striking.

This makes the implementation of normative ideas in daily business practice a matter for leadership personalities with the necessary moral convictions. While maintaining an enlightened awareness of the need for the profitability of their company they must do something because it is right, in the Kantian sense, and must be ready to devote resources for social and ecological purposes even though the *return on moral investment* does not accrue immediately.

Enlightened and morally sensitive leadership personalities must, therefore undertake first of all an analysis of all the factors that, because of their size have an

influence on company outcomes (materiality analysis)<sup>372</sup> and they must also make a thorough SWOT analysis<sup>373</sup>. The result of the striving to recognize and develop one's own strengths, to recognize and diminish weaknesses, to recognize the chances that arise, to identify possible threats and to act pro-actively will also help to indicate the areas in that the ethical quality of business actions can also be improved. In the foreground stands the command to do no harm, which is to say to do everything to avoid harming people living today and in the future and to protect natural and social capital.

As we are concerned here with business resources the question for leadership personalities is not "Should we or should we not accept responsibility over and beyond the legal minimum?" but "To what degree and for what reasons can we invest company resources beyond the legally required minimum?" Finding the right answer not only calls for professional expertise but also for ethical musicality and moral imagination.

372 KPMG (2014).

373 SWOT stands for strengths, weaknesses, opportunities and threats.

## Chapter 9

# CONCLUSION

### 9.1.

#### IDEALISM WITHOUT ILLUSIONS AND REALISM WITHOUT RESIGNATION.

It was not the purpose of this book to emphasize the reprehensibility of illegal actions. Action in accordance with all existing laws and regulations is a matter-of-course that does not need to be especially underlined. Regardless of his position of responsibility in the economy, politics and society, a person who acts criminally places himself outside the community and should be treated and punished like a criminal. Profits (including bonuses) that have been made possible directly or indirectly through criminal action must be confiscated and used to support the victims of criminality.

However, unusual circumstances and properly understood personal interest require more than just action in accordance with existing laws:

- In view of the threats arising from global environmental change, including not only climate change, species extinction, littering the oceans and the pollution of the air and the soil, but also the facilitation

of the conditions for the spread of viruses such as Covid-19;

- in regard to the additional social upheaval to be expected in the wake of the Corona pandemic and the accompanying endangerment of social peace and the growth of worldwide migration, and finally
- on account of a new kind of structural unemployment resulting from increasing digitalization and the replacement of human labour by artificial intelligence ethical issues are moving increasingly into the foreground in all spheres of life.

The more time passes the more urgent it becomes for people to act mindfully, to the best of their knowledge and belief, and in accordance with the Golden Rule in their personal sphere of influence and to endeavor, wherever possible, to take into account the expectations of enlightened world citizens. On account of the great power to act they possess leadership personalities in the economy are particularly called upon to set an example and to use their room for maneuver to raise the ethical quality of business actions. In the foreseeable future the effects of the Covid-19 crisis will reduce the financial scope for reforms, as measures designed to minimize the loss of economic substance will have priority. But there will be no “business as was usual before the crisis”. There can be no neglect in combatting huge problems such as climate change, because the damage will grow exponentially and solutions will become more expensive

if adequate action is not taken.<sup>374</sup>

Conceptually this primarily involves avoiding the mistakes of the past when rebuilding after Covid-19 and using the crisis as a catalyzer for a higher quality of business action. What this means specifically in practice will differ from company to company, but the *minima moralia* will at all events include applying best practices for the protection of the life, health and quality of life of people living now and in the future particularly where less responsible action might be possible on account of weaker laws and regulations.

Action justified simply by reference to its legality is not action to the best of one's knowledge and belief. The ten principles of the UN Global Compact<sup>375</sup> and those of the Caux Round Table for Moral Capitalism<sup>376</sup> describe the essential spheres of responsible action in their application to the present context. But only the concretization of these general imperatives in specific situations will change everyday business practice. Excellence in endeavors to raise the ethical quality of business actions will contribute to an improvement in the reputation of companies and their leading executives and will harvest more recognition for their contribution to the common good. This applies all the more in times of crisis.

The implementation of the 2030 Agenda with its 17

374 McKinsey Global Institute (2020a).

375 UNGC website at <https://www.unglobalcompact.org>, accessed on 05.07.2020.

376 Caux Round Table for Moral Capitalism, Online available under <https://www.cauxroundtable.org/principles/>. Accessed on 05.07.2020.

goals and 169 targets<sup>377</sup> will not succeed if it is not carried on “broad shoulders”, that is to say by enlightened leadership personalities who enrich “business as usual” with additional voluntary performances. Such contributions can be made within the framework of normal business activities, for example improved social benefits, company pensions, internal further training, subsidized nurseries for working women, company contributions to health insurance, particularly where – as in many developing countries – it is not part of the lived normality. In regard to the achievement of the specific environmental goals, endeavors beyond what is legally proscribed are necessary. This starts with the development of products and stops with investments in the environment in the company and its supply chains.

Finally, precautionary measures in regard to the protection of human rights must be given more weight. The implementation of voluntary observation of the recommendations of the *UNO Guiding Principles on Economic Reform and Human Rights*<sup>378</sup> admittedly involves additional bureaucratic burdens but it raises the sensitivity for a problem field.

On the creativity scale for the improvement of the ethical quality of business actions there is a lot of room at the top. For example in the development of new business models involving socially differentiated prices or

377 *United Nations Global Compact* (2016).

378 *Deutsches Global Compact Network (DGCN) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (ed.)* (2013)

social marketing campaigns for widely supported societal goals or voluntary additional performances for the support of external institutions committed to social or ecological goals.

Performances within the framework of normal business activities and additional commitments should not be offset against one another. Additional commitments take place along a creative and innovative continuum of responsible action.<sup>379</sup> Strivings to raise the ethical quality of business actions are an expression of a state of mind that prompts a person to take advantage of every possible opportunity to create a harmonious balance between business success and a prospering common good with the help of ethical musicality and moral imagination.

This state of mind expresses itself not only in the context of “big” issues but also – and perhaps above all – in many little gestures and forms of conduct that help people to shape their daily life in a more friendly way.

The existence of a robust and large good will potential in many companies has been demonstrated during the Corona crisis. Companies with enlightened leadership personalities did not make themselves conspicuous by immediately demanding state aid. Instead they reacted quickly, creatively and generously, swiftly reorganizing production processes in order to reduce supply bottlenecks, finding flexible regulations for staff who

379 *Leisinger, K.K. and K.M. Schmitt (2012).*

had to take care of sick family members, contributing to emergency funding or helping in a variety of other ways.<sup>380</sup> Endeavors to improve the moral quality of business actions resemble a marathon race with many steep inclines. Leadership personalities must ensure that the established ways of thinking and behaving change at all levels of the hierarchy. Deciding and acting becomes more complex, automatic responses and routines must be changed in such a way that they express the new normality:

- In strategic decision-taking arguments cannot be restricted to material calculations of cost-benefit; strategies must include additional elements related to the common good and sustainable development.
- The portfolio of internally identified options for action and the evaluation of its risk and use potential will be extended through the insights of external experts and, in the best possible case, by the interventions of a devil's advocate whose task it is to ask uncomfortable questions.
- The implementation of the strategy will happen, wherever possible, in cooperation with strategically important stakeholders.
- The evaluation of business operations will be more broadly based and the feedback on the strategy adopted will be more varied.

When we are dealing with the need for sustainably

380 *World Business Council for Sustainable Development (2020).*

changed action and behaviour fundamental questions arise as to the ability of people to change themselves and their decision- making procedures.

## 9.2.

### CHANGED WAYS OF THINKING AND BEHAVING ARE EASIER TO DEMAND THAN TO ACHIEVE

When we think abstractly and without any direct personal responsibility about the improvement of the ethical quality of business actions we can quickly conclude that it is highly desirable. Wanting to do something better is always a good disposition. Nowadays more knowledge about more issues is more easily accessible than ever before. This is particularly true of normative knowledge. People who wish to know whether they should decide and act in accordance with the traditional wisdom of the moral philosophical thinkers of the last 2500 years can easily find it out. The same is true of the ways and means available for shaping the social, ecological, political or human rights effects of business activities in a humane way.

But if this is the case, where do the problems lie for the implementation of the forms of action outlined in this book?

As an answer to this question one could cite Ockham's razor – or, differently expressed, the principle of

parsimony<sup>381</sup> – and name the simplest of the many proposed answers. *There is no external or internal pressure. Business is running well as it is, so why should one change anything?* Such a simplification gets us nowhere. As Einstein once said: Everything should be made as simple as possible, but no simpler.

If we dig deeper in regard to the obstacles standing in the way of an improvement of the ethical quality of business actions, we come across three elements of special significance: personality related, system theoretical and psychological reasons. Taken together they suggest that we must be realistic in regard to our expectations that the ethical quality of business actions can be significantly raised. People are as they are and should be respected and fostered as they are. But this also means, however, that people in companies who do not possess the necessary mindset and abilities are not suitable for top executive positions.

Essential aspects of personality are determined early in life

If one agrees with the views of the American psychologist David Keirsey, then 15-20% of a given population are idealists.<sup>382</sup> Such people

→ tend to be giving and trusting, and believe in human potential;

381 On Ockham's razor see [https://de.wikipedia.org/wiki/ockhams\\_Rasiermesser](https://de.wikipedia.org/wiki/ockhams_Rasiermesser). Accessed on 15.07.2020.

382 The Keirsey Group: Portrait of an Idealist. Available online under <https://keirsey.com/temperament/idealist-overview/>. Accessed on 06.07.2020.

- are proud of being affectionate, kind-hearted and reliable;
- are loving parents and inspiring leaders;
- are enthusiastic, trust their intuition, yearn for romance, seek their true self, prize meaningful relationships and friendships and dream of attaining wisdom.
- have a mental attitude oriented on the achievement of ideals and strive for high ethical standards and personal integrity.

Idealists are capable of inspiring other people with their enthusiasm and consequently have as greater influence on what happens in this world than their number alone would suggest. That they are dismissed by defenders of the status quo as “naïve” is a part of the *comédie humaine*. I am aware that scarcely any of today’s complex problems can be solved by idealism alone. However, without idealism raising the ethical quality of business actions and the consequent sustainable development with a human face will remain unattainable. Without an idealistic approach there is no reason to go beyond what the law and short-term calculation of benefits suggest.

I assume that the estimate of 15-20% idealists in the population also applies for leading executives. But this will not be enough to help us to achieve an improvement in the ethical quality of business actions, precisely because 80-85% of the population IS not idealis-

tic. As we are not concerned here with the attainment of short-term, effective situational adjustments but with a fundamental change in attitudes, we are ultimately dealing with the development of personality. Responsible and humanitarian action and conduct compatible with the common good should be a matter of course and should not require any special effort. Whether the additional moral performance is also commercially beneficial within a specific time horizon plays only a subordinate role for idealists as long as the economic substance of the company is not endangered.

According to our present state of knowledge brilliantly summarized by Gerhard Roth<sup>383</sup>, people can indeed change throughout their lives, although the nature and the degree of the changes differ widely. Individual factors such as genetic disposition, prenatal and postnatal environmental influences, factors from early childhood, socialization processes in later childhood, adolescence and (early) adulthood are the most important elements in the development of individual personality. In their basic characteristics these factors stabilize in the course of the years and become increasingly immune to environmental influences.

By the time people enter professional life as young adults – and especially when they only take on leadership tasks whose consequences affect the lives of other people at a later point in time - the development of personality has largely come to an end. It can only be

383 Roth, G (2019).

changed to a limited degree from within or without.<sup>384</sup> Volitional change “from the inside” has clear limits because people have very little insight into what actually drives them on in their innermost being. Later in life, when they have a clear idea of their life goals their personality has developed so far that “greater changes of course”<sup>385</sup> are no longer feasible.

Where it is possible to change a person’s personality in such a way that he can act in accordance with a contemporary understanding of the Golden Rule, the success of the efforts depends on the choice of the right procedure. Commands, directives or appeals to reason usually have little effect, if at all. The same is true of calls for solidarity. Only those measures have a chance of being effective in the long-term that fit in with the personality and the mental motivational structures of the individual concerned.

*“Words in themselves achieve nothing; they must appeal to the emotions and motives of the person we wish to change. This is not difficult in the case of events guided by consciousness [...] but the effect is relatively slight. We can only achieve more substantial changes if we succeed in penetrating to the unconscious motives.”*<sup>386</sup>

However, we only have access to indirect and relatively unreliable knowledge of the unconscious. People cannot be directly aware of the unconscious forces driv-

384 Roth, G. (2019): 427.

385 Roth, G. (2019) 428.

386 Roth, G. (2019): 430ff.

ing their behaviour. But indirect knowledge is available to us, be it through the way people speak, the stories they tell, their facial expressions, gestures, vocal expressiveness, body language and other non-verbal signals. Methods of personality diagnosis based on self-disclosure are unreliable. What follows is also applicable to interviews with candidates for a post:

*“What a person tells us is [...] is always only information on a subjective view of the self and the world in that momentary feelings, memories, experiences, expectations and assumptions play a part, particularly in regard to what the partner in the conversation wants to hear or to what is advantageous to oneself.”<sup>387</sup>*

One of the most important personalities in the German business world, Heinz Dürr, advised me to take shortlisted candidates for a post on the front passenger seat of my car for a half-hour drive through busy traffic. He believed I would learn more about his personality in this situation than in the longest interview...

As people always calculate the usefulness and the advantages or disadvantages of a new situation (if not always in a material, quantifiable way) it is necessary, in the context of raising the ethical quality of business actions, to discuss the following question with staff members: “What do the changes bring me on balance?” The theoretically demonstrable long-term benefits of an improvement of ethical quality in a company’s activities

387 Roth, G. (2019): 432.

are not accompanied by materially tangible short-term advantages for the individual staff member. Quite the contrary! In a competitive environment in that companies normally only observe legal minimums, responsible action involves more effort and in the most cases less measurable financial success. For people of integrity, who accept the inter-generational principle “Do no harm” this should not create any problems of justification. The moral minimum of action to the best of one’s knowledge and belief is the desire to do no harm.

The fact that people tend to value what they have and know more than what could possibly be achieved in the long-term through change is a further obstacle standing in the way of change. The status quo has a value in itself. You know where you stand and what you have. Possible losses are more heavily weighted than possible gains; aversion to loss is the determining behavioral strategy.<sup>388</sup> Changes are always accompanied by risks and consequently tend to be avoided. Exclusively rational decision-making reaches its limits (if it is at all possible).

Decisions based on reason take into account clearly defined alternatives for action and the evaluation of risks, but emotions also play a part. For complex decisions such as those taken when raising the ethical quality of business actions knowledge of the emotions involved is essential. The rational mind can only make proposals, indicate consequences and ask the limbic

388 *Kahneman. D. (2012): 304-305.*

centers whether they accept these consequences or not (for example a decline in sales when fulfilling immoral demands is a precondition for business success). “The final decision is always taken at the emotional level, and this determines the motives for our actions”.<sup>389</sup>

The problem is that emotional learning – in contrast to cognitive intellectual learning - starts very early and reaches its highest point in the first years of life. With regular training people can remain mentally fit and capable of learning well into old age, but emotionally their development is fixed at a relatively early stage in life. As the emotional dimension is so important for the personality and its decision structures it is incomprehensible that so little value is placed upon it in the choice and training of business executives.

In endeavors to improve the moral quality of business actions elements of management of a special kind<sup>390</sup> are of the greatest significance:

- *The development and cultivation of personal esteem in relations between leading executives and staff members and with other people in the immediate environment.* This alone enables a better knowledge of the personality of another person and an empathetic understanding of his motivational structures. Knowledge of this kind diminishes the probability of making false decisions and false appointments, that do harm to all concerned and their common objectives.

389 Roth, G. (2020):259.

390 Leisinger, K.M. (2018).

- *As broad an inclusion as possible of the relevant stakeholders in the development of conceptions and in the implementation of the desired changes.* In this way the basis for decisions becomes broader and the people included in the decision process benefit. The feeling of being taken seriously as a person, just as one is, not only changes the attitude towards work but also preserves mental health.
- *The encouragement of personal responsibility and the creation of room for self-realization* by enabling staff members to live out their own values in everyday business life contributes to their ability to react quickly, flexibly and responsibly to change.
- Counselors who offer courses in normative change management usually experience a heavy demand for ethical teaching contents after a negative incident has attracted public attention. One listens to a few clever lectures, feels wiser for a time and then returns to business as usual. Where an awareness of the existence of a problem is lacking, there is no interest in change and no demand for new knowledge. Thoreau spoke of this human disposition in the last sentence of his satirical short story *Candide*: “Cela est bien dit, mais il faut cultiver notre jardin.” (“It’s fine to talk, but we must cultivate our garden.”)

The innate disposition to learn, the personality and the factors determining its development decisively influence the ability to learn.

*“How I spontaneously behave towards my fellow men is determined by my temperament but also quite essentially by my self-esteem, that is a result of my earlier experience of attachment and other early psychosocial influences. The effect of my ‘good upbringing’ is only secondary”<sup>391</sup>*

Finding out the unconscious motives, recognizing conscious goals and the resultant individual expectations of reward are the pillars on that sustainable success in raising the moral quality of business actions is based.<sup>392</sup>

Even then the structures and the nature of the reward must be adapted to the personality, the needs and the reward expectations of the individual. We are by no means concerned here with material rewards alone; these lose their impact in the course of time. The argument that top managers must be permanently kept in a good mood is quite simply false; reports to the contrary are founded on self-interest. Every kind of external motivation can only be effective in the long term when it turns into self-motivation.

When choosing among candidates for key positions of responsibility companies should look for more than excellent professional competence. The candidates should not only be interested in a competitive material remuneration; their true motivation should lie in the intrinsic rewards to be gained from the post, such as, for

391 Roth, G. (2019): 254

392 Roth, G. (2019): 259.

example:

- the pleasure deriving from doing work that permits the fulfillment of personal values and ideals;
- the satisfaction deriving from work that also involves making a contribution to something greater;
- the self-affirmation that what one does has a significance over and above the work process;
- the fulfillment that comes from doing things that are close to one's heart, as was expressed by Steve Jobs in his commencement address at Stanford University.<sup>393</sup>

Actions and behaviour of leadership personalities based on this kind of motivation will not only have a "contagious" effect on colleagues but will influence the entire corporate culture. Personalities motivated by intrinsic rewards

- support their colleagues in their endeavors to develop;
- do not look for staff when filling vacancies who will be most useful for their own advancement, but have what is best for the company as a whole in mind;
- are ready to listen respectfully to strategically important stakeholders and are willing to learn from them, because they do not see the resultant revision of their opinions as a loss of power but as enrichment;

393 *Jobs, St. (2005).*

- define responsibility more comprehensively than what is prescribed in external laws and internal regulations.

In view of the fact that there are limits to the changes in personality adults are capable of making and that only 15-20 per cent of the people in a company possess idealistically structured personalities, it is all the more important that the remaining 80-85 per cent are properly deployed.

### **Work content and environment must fit in with personality**

People adapt very little or not at all to a living or working environment, and attempt instead to find living and working conditions that fit in with their personality. The employees of companies also search for a work content and work environment that corresponds best to their particular personality. For example, we encounter totally different personality types in the bookkeeping sections of a company than in the marketing department, and others again in the research or personnel departments. This is also true outside companies. Personality types in forestry differ from those in the media, in the caring professions from those in professional sport, or, within sport, in gymnastics and in boxing.

For the wide variety of work in different social sub-systems functionally differentiated societies need a great variety of people with differing personality char-

acteristics and dispositions. These differences are desirable and they cannot be equated with different moral qualities. They do, however lead to differing preferences when choosing between a given number of options for action.

If in the course of his career a manager is moved to a new working environment, and the “culture” of this new environment is incompatible with his personality and his concept of “culture”, considerable problems can arise for the manager, the existing staff and the quality of the work performed.

I know of a case in that a veterinarian lost a part of his previous work in the course of a restructuring of the company and was given an additional sphere of work in its place. He became responsible for the conceptual questions of social responsibility within the company and was appointed as a mentor supervising the work area “humanitarian aid”. The focus of his new work thus lay in contributing to the wellbeing of humans and not to the health of animals. He was not only professionally unqualified for this task – that could have been compensated for by delegation; he was also the wrong choice from the standpoint of his personality. Both he and the staff of this field of work, who had formerly enjoyed great external recognition for their commitment, were unhappy with the situation. After the usual period of grace he was replaced, but the damage was done. Good workers had left the company, and the broadly defined humanitarian commitment was largely abandoned in favor of a narrowly defined strategic commercial interest.

The new goal was primarily the development of markets and no longer the amelioration of suffering among people living in absolute poverty.

The manager concerned does not bear the sole responsibility for the mistakes made. He was, it is true, incapable of empathizing with the philosophy of responsibility of his new sphere of work and was also unwilling to learn. He was, in principle, unsuitable for the task. But the responsibility for appointing a completely unsuitable person to the post lay with the CEO of the company, who had not taken the trouble to consider whether the personality of the veterinarian fitted in with the requirements of his new field of work. The mere availability of a manager is no reason to entrust him with demanding tasks for that he is not professionally or personally suited. This is particularly true when the new task calls for specific intellectual attainments and cultural openness and for a personality who is willing to deal with the claims of stakeholders and to adopt a constructive discourse-ethical attitude of mind.

The CEO in question probably held the field of *social responsibility and humanitarian aid* for AS so insignificant that it did not matter to him what the veterinarian made of his job. This is also an indication that professionally competent people – for example good marketing experts – are not necessarily good CEOs. What is right and proper in an old context can be less helpful or even harmful in a new and more complex one. When choosing leaders their “technical” skills and

the diverse kinds of intelligence are a matter of course.<sup>394</sup> What really counts and should stand in the foreground is the personality of the candidate.

In order to assess the fittingness of a person for a position “deeper-lying motives including the reward expectations”<sup>395</sup> must be fathomed. According to Roth a sufficiently good match of person and position combined with the necessary personality characteristics is required. “If this match does not exist or cannot be achieved successful work cannot be expected, no matter whether the person concerned is a leading executive or a staff member lower down the hierarchy.”<sup>396</sup>

The fact that efforts to raise the ethical quality of business actions in everyday life depend on personality traits and are consequently labourious does not diminish their desirability, although it does reduce the probability of success. This insight will be deepened by the consideration of system-theoretical factors.

### 9.3.

#### SYSTEM THEORETICAL OBSTACLES TO THE PRACTICAL IMPLEMENTATION OF MORAL PHILOSOPHICAL INSIGHTS

The ideas of Niklas Luhmann also provide indica-

394 *Leisinger K. (2018): 113f.*

395 *Roth, G. (2019): 433.*

396 *Roth, G. (2019): 433.*

tions of the system-theoretical obstacles to the practical implementation of moral philosophical insights into the ways the moral quality of business actions can be raised. Without going into the intellectually intricate ramifications, we can affirm its usefulness in our present discourse. Luhmann sees society as a social system in that the various sub-systems such as politics, law, religion, science, art and also the economy take on certain functions and fulfill them with a high degree of effectiveness. The various sub-systems not only have different functions but also a certain degree of autonomy and communication logic of their own.

Luhmann's asserts that although social consensus on normative issues is possible, concrete decisions can only be taken in each of the specific function systems and their organizations that are, however, determined by the logic of the sub-system concerned. This hits the nail on the head. A manager of a company dealing with real problems and acting under the pressure of competition, time and resources develops a different logic from an ethicist who can flee into the "world as it ought to be"<sup>397</sup> Many issues that are criticized by broad layers of the population from an ethical standpoint involve structural problems that can at best be "tamed" but not solved by individual ethical efforts. The sub-system of the economy and its organizations function in the context of markets, and success on the market depends on other criteria than those suggested by the Sermon on the Mount.

397 *Luhmann, N. (1993): 136.*

Karl Homann's arguments presented in the context of his book "Sollen und Können" ("ought and can") are still highly topical in this regard.<sup>398</sup>

When an actor from the sub-system science and its sub-division moral philosophy encounters a person who earns his living in the sub-system economy in a profit-oriented company, two different notions of purposeful and adequate action clash. What is central for the moral philosopher but does not fit into the communication logic of the business economist is of slight importance for the latter, at least in regard to his business environment. The same applies vice versa. When economists point to the market and to prices as the most important mechanisms of allocation, they could meet with indignation on the part of the moral philosopher, for example in connection with the price of medical products for people living in poverty. The different systems logic of the moral philosopher and the business economist determine the relevance and the acceptance of the communicated contents for each of them. Whatever is not part of the logic of a particular sub-system has no role to play within it. As a consequence, different perceptions of reality and decision logic occur.

Luhmann recognizes the limits of an exclusive system logic. When we are dealing with social progress and the individual motivation to act, the isolated rationality of economic optimization cannot be regarded as rational in relation to the whole of society. He pleads for

398 Homann, K. (2014).

the reintroduction of the concept of *political economy*, anticipating what was later developed under the name of “values management”<sup>399</sup>. Where decision processes are broken down into individual steps, these can, according to Luhmann, be underpinned “by target values of an ethical kind”<sup>400</sup>.

Psychological obstacles to the practical implementation of moral-philosophical insights

Insights from a psychological perspective are no less suited to inspire hopes of raising the ethical quality of business actions in a sustainable fashion. The work of Daniel Kahneman and Amos Tversky is particularly significant here.<sup>401</sup> The authors distinguish between two cognitive systems and, related to them, two different modes of thought. They compare the two ways of functioning of the human intellect with two agents who have different individual abilities, limitations and functions.<sup>402</sup>

## System 1

System 1, as Kahneman and Tversky term it, works automatically, swiftly, without voluntary control, and is largely effortless and instinctive. The main function of system 1 is

399 Wieland, J. (2004).

400 Luhmann, N. (1993): 145.

401 Kahneman, D.P., P. Slovic and A. Tversky (2008).

402 Kahneman, D. (2012):21

“to maintain and update a model of your personal world, that represents what is normal in it. The model is constructed by associations that link ideas of circumstances, events, actions and outcomes that occur with some regularity [...] As these links are formed and strengthened, the pattern of associated ideas comes to represent the structure of events in your life and it determines your interpretation of the present as well as your expectations of the future”<sup>403</sup>

System 1 is formed in such a way that it can draw wide-reaching consequences from scant information (“What you see is all there is”). The impressions and feelings created by System 1 are converted - with the help of System 2 - into convictions and attitudes. The surprising is distinguished from the normal. System 1 neglects ambiguities and suppresses doubt; it places more weight on lower probabilities. Our thoughts and actions are routines controlled by System 1 – and they are generally also correct in the context of our life world. This also applies to the decisions of leaders acting within the core competencies of a business enterprise. Where internalized ways of thinking and acting with integrity and unproblematic situations make it possible to take business decisions with the fast thinking of System 1, reflection on additional arguments from moral philosophy are unnecessary. In view of the usually high pressure of time and work this would also be an unreasonable

403 *Kahneman, D. (2012): 71*

waste of time for the managers concerned. However, as System 1 cannot be voluntarily switched off, intuitive errors in reasoning are also difficult to avoid in executive committees.

Here is an example: A long-standing client orders an additional amount of a standard product for consumption, that he has always ordered in the past and has always used in accordance with the usage instructions. System 1 decides swiftly and without effort: the customer is a person who can be taken seriously, so there is no problem. The goods can be delivered. The decision can be taken at the operational level.

But if System 1 is confronted with complex problems and runs into difficulties it requests from System 2 a detailed and specific processing of the facts.

## **System 2**

System 2 controls, compares, assesses and makes complex calculations. It intentionally guides attention to strenuous mental activities. Kahneman calls System 2 “the conscious, reasoning self”<sup>404</sup> It takes action when the solution of a complicated problem calls for carefulness, concentration and intellectual effort. Memory is searched in order to find plausible reasons for acting or avoiding action, for example when System 1 registers a

<sup>404</sup> Kahneman, D. (2012): 21: See also 415.

happening that goes against the existing world picture of a person.

Here too an example: A scarcely known client from a country with a suspect government places an urgent order for a product that can be used both for civil purposes (e.g. a plant protection agent) and for military purposes (production of chemical weapons) (dual use). In order to reach an ethically acceptable decision a complex analysis of the entire situation is necessary, that can result in a sacrifice of sales and profits, but also in damage to the company's reputation and possible legal complications. This decision can no longer be taken at the operational level as a routine measure but must be taken at the executive level after a careful weighing up of all the arguments.

Weighing up the different ethically relevant effects of a decision always requires the activation of System 2. It also takes into account the fact that self-overestimation and self-reference lead in the best case to sub-optimal, and in the worst case to false decisions. Thinking in System 2 takes place in the awareness that in the case of complex problems there are no simple solutions and no linear causalities. We often make mistakes because we know no better.

Kahneman names further factors that considerably increase the importance of information and arguments coming from within a company, for example priming,

the anchor effect, the halo effect and framing.<sup>405</sup> All of these factors increase the weight of what is thought within the firm and what is regarded as normal. Outsiders with different opinions find it difficult to get their viewpoints heard in the company. Information from people we know and like seems more credible than what we hear from strangers or people we do not like. This tendency is also to be found in regard to political preferences. Views and arguments coming from another political camp never have an equivalent weight. And, finally, opinions that are frequently presented are more positively judged than everything that comes from outside the mainstream.

What is available to us as the established wisdom of the last 2500 years is of no use if people in ethically relevant decision situations do not make practical use of it because it is not part of the logic of their sub-system and is presented by outsiders. Everything that is taught by well-meaning idealists in management courses has little effect on practical actions if the participants are not capable of developing a personal, inner motivation to act. And we must soberly accept that in any particular group only 10-15 percent will be in a position to do so.

Of course the solution of complex normative problems always calls for the use of System 2. However everyday business life does not consist only in the solution of complex problems; most activities are of a routine kind. Consequently, raising the ethical quality of daily business opera-

405 *Kahneman, D (2012) 52ff, 108ff, 206, 363ff.*

tions can only take place on a broad basis when it is firmly anchored in System 1 on a routine basis.

This brings us back to the need to expand the requirement profile of leading executives. Only people possessing ethical musicality and moral imagination, only people whose personality is characterized by care, responsibility, respect for others and knowledge, as postulated by Erich Fromm, should take up positions in that they make decisions that affect the lives of other people.<sup>406</sup> Only such people possess the sensitivity needed to recognize ethically relevant borderline cases; they alone do not fall victim to the cognitive distortions, restrictive heuristics and anchor effects inherent to System 1. Only such personalities possess the modesty that protects them from thoughtless self-over-estimation and the willingness to accept the advice of others. Such personalities also know that in examining the options for action in dealing with complex problems the reduction of their focus to single elements of the problem is not purposeful and that the networking of all the individual phenomena alone can clarify the overall problem. In this way they avoid situations in that a correct but partial isolated decision in a smaller context renders the overall solution more difficult, if not impossible.

406 *Leisinger, K.M. (2018).*

An improvement in the ethical quality of business actions is, “under otherwise equivalent conditions”<sup>407</sup> only possible to a limited degree. The *2030 Agenda for Sustainable Development* is also a reform agenda for the whole of society. It demands from all people in all social sub-systems changes in actions and behaviour through that its 17 goals and 169 targets can be achieved.

Of course every individual should try to transcend personal interest in daily life and to act with care, responsibility and respect for others in daily life, as proposed by Erich Fromm.<sup>408</sup> And of course those who have more power have more responsibility. I believe it is an illusion, however, to believe that companies can fight successfully, enduringly and without substantial losses against competitors whose products and services do not take the social backpack and the ecological footprint into account, thus enabling them to sell at very attractive, low prices. In a functionally differentiated society that permits an increase in productivity what counts is a “conscience for the whole”, as Erwin Teufel puts it in the title of his political memoirs.<sup>409</sup>

407 *Many economic models are based on the ceteris paribus assumption. One variable is changed, all the others are held constant, and the effect on the overall system is observed. – in this way important interdependent and cumulative effects are disregarded.*

408 Leisinger, K.M. (2018).

409 Teufel, E. (2009).

In other words we are concerned with a social contract accepted by all actors that lays down the implicit and explicit expectations regulating the relationship between the members of society in the light of the new framework conditions.<sup>410</sup>

Although contemporary societies, at least in the OECD countries, differ from the absolutist monarchies of the 18<sup>th</sup> century opposed by Jean Jacques Rousseau, the core ideas of his work *The Social Contract*<sup>411</sup> can still be applied almost unchanged to modern societies and their endeavors to create a humane and sustainable development of the world.

- Only a general will (*volonté générale*) aiming to achieve the common good can be the basis of legitimate political power.
- The individual actors freely renounce a part of their rights in favor of a prospering whole.
- There are generally valid values and norms to that all people voluntarily submit. Individuals thereby lose the unlimited right to achieve their personal goals in the way that suits them best, but they receive in return a social environment characterized by more wellbeing for all and hence ultimately more freedom.
- Legislative institutions act with higher reason in the

<sup>410</sup> McKinsey Global Institute (2020b).

<sup>411</sup> Rousseau, J.-J. (1762/1998).

interest of all society and not to the advantage of particular interests.

If we consider the economy and the companies and leadership personalities operating within it as what they are, namely, the most effective and innovative, best-organized social sub-systems, any attempt to shuffle off leadership responsibility for a social contract would be inappropriate. In the final analysis it would also be un-intelligent, as it would leave reform initiatives to people from other social sub-systems with other interests.

Of course reforms are easier to achieve when all the actors make their contribution to the new social contract, that is to say:

- Citizens in their roles as consumers, investors, savers and voters act as far as possible as they think right on ecological and social issues.
- Governments ensure by means of customs duties, taxes and other instruments that prices reflect the social and ecological truth, and products that prevent sustainable development disappear from the market in the course of time.
- The media, by reporting on exemplary actions of leadership personalities, create new “heroes” and so motivate others to act in the same way.
- Non-government organizations (NGOs) do not only practice *naming* and *shaming* by quoting negative cases, but also provide illustrative examples

showing how it is possible to make profits in a socially acceptable and sustainable fashion.

- Representatives of the churches also point to positive examples of good actions and do not merely damn illegitimate activities.
- Universities present positive studies demonstrating that, given an enlightened will, ways can be found to raise the ethical quality of business actions.
- Business associations award prizes for holistic company successes and apply more complex criteria than those usually found in business management when choosing “managers of the year”.

As the word “leading” implies, leadership personalities do not simply follow others. They differ from other managers because they recognize the signs of the times, follow their own insights and act strategically and courageously by taking new paths. They do not wait for input from others, allow their decisions to be influenced by pressure from the street or simply take over the requirements of new legislation. Out of personal responsibility they grasp the opportunity to act pro-actively and so contribute to the development of changed ways of thinking and behaving in the overall system of “society” and to the establishment of new parameters for success in the market.

This includes a new discourse on what the majority regard as a *fair social division of labour and responsibility* and as a community built upon shared values. The rep-

representatives of the sub-system of the economy have the task of rethinking the meaning and the goals of their own actions.

Changed framework conditions require an adaptation of purpose

The framework conditions of business actions have changed in the last 20 years. The Corona crisis will accelerate and intensify these changes. Nine world-wide recognized intellectuals are of the opinion that the Covid-19 pandemic will lead to permanent social change and to shifts in the global political and economic distribution of power; the consequence will be a better balance between globalization and national self-sufficiency, the rise of nationalist demands and accelerated digitalization.<sup>412</sup>

Without an enlightened intervention of leaders in politics, the economy and society the polarization in income and wealth will continue to grow, the security of places of work will decrease, pressure on employees and the accompanying stress will grow. As a result feelings of uncertainty and exclusion and a loss of trust in institutions will grow. This in turn will lead to changes in the political landscape that do not promise well for the long-term development of the economy and society. Leadership personalities will not greet these changes with a shrug of their shoulders but will counteract them to the best of their ability.

<sup>412</sup> *Foreign Policy* (April 15, 2020).

The McKinsey Quarterly<sup>413</sup> quotes a questionnaire of Fortune Magazine made in 2019 before the Covid-19 pandemic began that reports that only 7% of 500 CEOs asked believe that their main task is to make a profit and not to be put off by social goals.<sup>414</sup> Most of them are convinced that one should raise the ethical quality of business actions. This, at least, is how I interpret the McKinsey-speak: “fully leverage the corporate scale to benefit society.”<sup>415</sup> The fact that the Business Round Table, Larry Fink of Blackrock and Klaus Schwab, the founder of the World Economic Forum, and now also McKinsey all wish to reinterpret the meaningfulness and the purpose of business action in this direction must be positively evaluated. In spite of all its dreadful effects the Covid 19 crisis is also an opportunity to consider the need for reform of the existing values and action portfolios of the business enterprises.

This starts with the sense of *purpose*. New social framework conditions demand new answers to the questions of the why, the goals and the purpose of work in the core competencies of a company and must therefore lead to a questioning of the previous legitimation of the business models hitherto followed.<sup>416</sup>

The catalog of questions listed by McKinsey for reinterpreting or re-evaluating the purpose of business enterprises is demanding. It makes sense, nonetheless,

413 McKinsey Quarterly (April 2020).

414 Murray, A. (2019).

415 McKinsey Quarterly (April 2020).

416 HHL (2018)

for small and medium-sized companies to consider the answers to the following questions:<sup>417</sup>

- What exactly is the meaning and the purpose of the work of a company? How can we make a unique contribution to the common good?
- What are the strengths, weaknesses, opportunities and risks of our previous business model, and how can we use our strengths and opportunities and diminish our weaknesses and risks?
- Whom do we want to include in this discussion? Are we ready to be responsive to the criticisms and concerns of strategically important stakeholders?
- Do we want to encourage all of our partners in the value creation chain, including the supply chain, to accept and follow our strivings to improve the ethical quality of our business actions?
- What does a consistent implementation of the newly defined *purpose* mean for the previous organizational structure?
- What is the right leadership style when knowledge is more varied, staff members are better trained and important stakeholders are included in the discourse?
- What are the most effective incentives, guidelines and processes in order to guarantee that the newly

417 *McKinsey Quarterly* (2019).

defined purpose becomes a matter-of-course compass for action throughout the entire company?

→ How can we measure our progress on the new path we have taken?

The result of the reflections on purpose determines the choice of strategies, inspires staff and binds clients.

Such a program requires substantial resources and a strong will on the part of the members of the leadership team to move forward resolutely even when faced with strong headwinds, and all the more so when everyday business is mostly running satisfactorily. The most important task of the leadership team is to motivate, to inspire, to create space for independent work and to treat all others in the spirit of the Golden Rule.

The corporate culture such an approach creates has further cumulative positive effects on the ethical quality of business actions. And with an increasingly wide social appeal it will become a cornerstone of a new social contract.

### **The longest journey also starts by taking small steps.**

A reform of capitalism is being demanded not only by “the usual suspects” on the left wing of the political spectrum, but also by many other otherwise NON-political people who are deeply concerned by the problems we face. Like all “isms” capitalism is a concept that people fill with differing contents. The discussions going

on today about limitations in market-oriented activities by means of social, ecological and human-rights guidelines suffer from the fact that they are carried out almost exclusively from a decidedly critical perspective on capitalism.

This is an opportunity for enlightened leadership personalities. They can make concrete contributions to the improvement of the ethical quality of business actions and bring them into the discussion without theoretical pathos. As the *2030 Agenda* puts it, it is necessary “to take bold and transformative steps that are urgently needed to shift the world onto a sustainable and resilient path” and to ensure “that no one will be left behind.”<sup>418</sup> The fundamental pillars of this undertaking are:

- Improvements in the job opportunities and working conditions of people with inadequate qualifications, endeavors to better the employability of all staff members, flexibility of working hours, special arrangements for single parents and for those who care for family members, organization of internal socials benefits and the like. All of this should take place in cooperation with those affected, so that any necessary changes can be made as far as possible in accordance with their wishes.
- Use of the recommendations of the *2030 Agenda* as structural guidelines for the development and further development of products and services and the

418 UN General Assembly (2015) Preamble.

abandonment in the medium term of those products and services that are not compatible with the goals of the agenda.

- Sensitivity for aspects of human dignity and human rights at all levels and on all occasions, emphasis on positive cases and problem solving SPURRED ON BY negative cases.
- Taking particular care in the case of commitments to countries with lower and medium incomes.
- Treatment of accessibility questions as a strategic necessity in the case of products and services that are essential for the quality of life and the survival of people, and openness for corresponding modifications in price policies.
- Participation in public discourse on a just and efficient division of labour and responsibility and the corresponding roles of the various actors involved, and the search for possible synergies.

I am aware that the desired changes of the kind discussed here can only be carried out in small steps. The status quo is a sluggish system. Change in established ways of thinking in the economy, society and politics is a labourious and complex process influenced by many factors. What an individual of good will can change in the short term seems so slight that it can have a sobering effect on ambitious people. But it should not do so, as the result of the addition of many small contributions to progress looks very different in the long term.

Nowadays many things are possible in information and communication technology, in preventive and curative medicine and many other fields that would have seemed utopian ten years ago. Why should the greatest crisis of our generation, Covid-19, not provide impulses for a change in ways of thinking and behaving, that can make our society more humane, sustainable and compatible with the wellbeing of all people in the world.

One can finish a book in many ways and call upon their insights of many intellectual giants. In his epic play “The Good Person of Szechwan”, for example, Bert Brecht comes to the disappointing conclusion that a capitalist society inevitably leads to moral conflicts between “being good” and “living well”. He sees “the curtain closed while all questions remain open” As the only way out of this situation he recommends that people find out for themselves how one can help a good person to a good end. “Ladies and gentlemen, in you we trust. There must be happy endings, must, must, must.”

The present text could be an incentive to reflect on the practical consequences of what we recognize to be right and to implement it in the course of time.

Vaclav Havel, a man who personally experienced the misery of political oppression, spent five years in prison on account of his courage and tenacity, and was barred from his profession as a punishment, never gave up. As a result of the happy circumstances of the upheaval of 1968 he was rewarded for his uprightness and was elected president of Czechoslovakia. He has made us a pres-

ent of his definition of hope: “Hope is not the conviction that something will turn out well, but the certainty that something makes sense no matter how it turns out.”

To end in this way could keep the flame of the motivation to work for a good end burning, even when we are faced with strong headwinds. This is said in the awareness that the wind can blow the candle out, but it also fans the flames.

I prefer Victor Hugo:

*“Nothing is more powerful than an idea whose time has come”.*

Those who recognize this first have the merit of being part of a movement that will create a happier life for people living now and in the future. They are the better leadership personalities for their company because, as innovators, they are in a position to use the advantages of newly structured markets for their clients.



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