

# RIVAL PHILOSOPHICAL FOUNDATIONS OF THE GOOD COMPANY

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## Abstract

Although Catholic social thought (CST) and corporate social responsibility (CSR) resemble one another superficially, they are rooted in quite different philosophical traditions. CST belongs to the perennial philosophy of the great ancient and medieval thinkers according to whom human persons belong to communities naturally and there is no conflict between the individual and common goods. CSR is based upon modern philosophical systems characterised by individualism and the dichotomy between egoism and altruism. This paper surveys four philosophers from each tradition – first Plato, Aristotle, Cicero and Aquinas, then Hobbes, Smith, Kant and Mill – and argues that CST is more fruitful than its rival. We should understand the good company as a virtuous community of persons, not as a collection of individual stakeholders brought together by a social contract.

## 1. Introduction: The Disparate Philosophical Traditions of Catholic Social Thought and Corporate Social Responsibility

Catholic social thought (CST) and corporate social responsibility (CSR) resemble one another in their concern for a business culture that is aimed at more than profit-maximisation, although, as we shall see, while they often make similar recommendations to practicing managers, their reasons for doing so, and the philosophical traditions in which they are rooted, are strikingly different. Because their underlying theories are so dissimilar, the resemblance between them is only superficial. This essay attempts to characterise their quite different philosophical traditions.

CST belongs to the perennial philosophy (*philosophia perennis*) of the best of classical Greek and Roman thinkers, especially Plato, Aristotle and the Stoics, as well as subsequent Catholic philosophers such as Augustine, Albertus Magnus and Thomas Aquinas. CSR is based on the modern-European philosophical systems that rejected the legacy of medieval philosophy.

Although CSR borrows from a wide variety of modern philosophers, it relies especially on the social contract tradition, which has roots in ancient thinkers, such as Protagoras, Xenophon, and Epicurus, and was developed more fully by modern-European philosophers, both British (e.g. Thomas Hobbes, John Locke, David Hume) and Continental (e.g. Baruch Spinoza, Jean-Jacques Rousseau, Immanuel Kant).

One central concept within the perennial philosophy is that of community. For human persons to belong to communities is natural. One characteristic of a community is that there is no conflict between the good of the individual members and the good of the community as a whole. Consequently, to be ethical, to promote the common good, is good for oneself.

Among the most distinctive features of modern moral and political philosophy, including social contractarianism, is its individualism. Human persons are naturally individualistic and artificially social. In the words of economist Milton Friedman, writing under the influence of modern

philosophy at its worst, “Society is a collection of individuals and of the various groups they voluntarily form.”<sup>1</sup> This individualism results in what Henry Sidgwick has called the “dualism of practical reason”,<sup>2</sup> the dichotomy between egoism and altruism. The interest of an organisation is the aggregate of the conflicting self-interests of its individual members. Ethics is no longer about promoting one’s own good by promoting the good of the community, but about promoting the interests of others instead of self-interest, or about striking some ethical balance between egoism and altruism. This is true of most modern moral philosophers, no matter how sharp their disagreement at other points.

Given the fundamental, irreconcilable differences between the perennial philosophy and modern philosophy, a theory of the good company rooted in one tradition will differ from a theory rooted in the other. The aim of this essay is to highlight some of the most important differences between these rival philosophical traditions.

## **2. The Philosophical Foundation of Catholic Social Teaching**

Rooted in the perennial philosophy, CST understands the business corporation, not as a collection of individuals, but as a community of persons: “The purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a *community of persons* who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society.”<sup>3</sup> Of the many contributors to the perennial philosophy, I shall consider four: Plato, Aristotle, Cicero, and Aquinas. All agree that it is natural for human persons to belong to communities and that promoting the common good is good for oneself.

### **2.1. Plato: The Advantage of Justice and the Virtuous Community**

In Plato’s *Republic*, Socrates and his interlocutors debate whether it is good for oneself to be just. Thrasymachus argues that justice is disadvantageous and injustice advantageous:

Justice and the just are in reality another’s good; that is to say, the interest of the ruler and stronger, and the loss of the subject and servant; and injustice the opposite; for the unjust is lord over the truly simple and just: he is the stronger, and his subjects do what is for his interest, and minister to his happiness, which is very far from being their own.<sup>4</sup>

Thrasymachus thus agrees with most modern moral philosophers that ethics requires benefiting others at the expense of self-interest. Socrates (speaking for Plato) argues, to the contrary, that “to be just is always better than to be unjust”.<sup>5</sup> Socrates reaffirms this conviction at his trial, after being unjustly sentenced to death: “Nothing can harm a good man, either in life or after death.”<sup>6</sup>

For purposes of understanding the philosophy of the good company, Plato’s greatest contribution is his account of the relationship between the virtuous person and the virtuous city-state. According to Friedman, “only people can have responsibilities”; because a corporation is an “artificial person”, it can have, at most, “artificial responsibilities”.<sup>7</sup> Business ethicist Lynn Sharp Paine tells us that the idea of *organisational* ethics is a recent one:

Ethics itself has historically been thought of as a purely personal or individual matter, rather than an organizational concern. Concepts like “corporate values,” “corporate ethics,” “corporate responsibility” are all of relatively recent vintage, originating, as we

have seen, in the needs of modern industrialized societies. For obvious reasons, these concepts are not to be found in classic writings on ethics.<sup>8</sup>

Plato proves both Friedman and Paine wrong and explains that not only individual persons, but also communities of persons, can be good. In Book IV of *The Republic*, Socrates shows us that the most important virtues—wisdom, fortitude, temperance, and justice—are to be found in both the good person and the good city. The wisdom of the city is found in the wisdom of its rulers, its fortitude in that of its soldiers. As a man is temperate when the rational part of his soul is in control of the non-rational part, so the city is temperate when the majority is controlled by the virtuous minority. Finally, the city is just when each person contributes to the common good by performing the function for which he is naturally best suited.

Plato's theory of the virtuous city-state cannot be applied without modification to the business corporation. Moreover, it is significant that, while he recognises the necessity of including craftsmen and merchants within the city, they are able to contribute to the virtue of the whole only by playing a subordinate role. Plato assumes that businessmen cannot be virtuous. Nevertheless, he provides the foundation for a theory of the virtuous company. He shows us that we are virtuous as members of communities, not as solitary individuals.

It should be noted that social contract theory is found within Plato's *Republic*. It is attributed to the confused majority, however, not to Socrates:

[The many] say that to do injustice is, by nature, good; to suffer injustice, evil; but that the evil is greater than the good. And so when men have both done and suffered injustice and have had experience of both, not being able to avoid the one and obtain the other, they think that they had better agree among themselves to have neither; hence there arise laws and mutual covenants; and that which is ordained by law is termed by them lawful and just.<sup>9</sup>

A belief that was once held by “the many”, but recognised by the leading philosophers to be mistaken, has now become accepted by many modern philosophers. Socrates argues, to the contrary, that political communities originate from the fact that we are not individually self-sufficient: “A state, I said, arises, as I conceive, out of the needs of mankind; no one is self-sufficing, but all of us have many wants.”<sup>10</sup>

According to social contract theories, human beings in the “state of nature” are isolated individuals. In the words of John Locke, we are “by nature all free, equal, and independent”.<sup>11</sup> As Jean-Jacques Rousseau puts it, “Men are not naturally enemies, for the simple reason that men living in their original state of independence do not have sufficiently constant relationships among themselves to bring about either a state of peace or a state of war.”<sup>12</sup> Human society is not natural, but artificial: “The social order is a sacred right which serves as a foundation for all other rights. Nevertheless, this right does not come from nature. It is therefore founded upon convention.”<sup>13</sup> Because life in the state of nature is precarious, it is in the interest of each individual to form the social contract: “Each of us places his person and all his power in common under the supreme direction of the general will; and as one we receive each member as an indivisible part of the whole.”<sup>14</sup> Nevertheless, there exists the possibility of conflicts of wills and of interests: “Each individual can, as a man, have a private will contrary to or different from the

general will that he has as a citizen. His private interest can speak to him in an entirely different manner than the common interest.”<sup>15</sup>

Social contract theory and the perennial philosophy agree that it is better for humans to live with other humans than to live alone, but not for the same reasons. For social contract theories, I can pursue my self-interest more effectively if I agree with others that all of us will place certain restrictions on our individual pursuit of self-interest (cf. the prisoner’s dilemma). Ethics is external to each person and is concerned with reducing conflicts between different persons’ pursuit of self-interest. For the mainstream of Western philosophy prior to the Enlightenment, however, to promote the good of the community and its other members is to promote my own good. For social contract theorists, ethics is opposed to egoism: “The significance of egoism philosophically is not as an alternative conception of right but as a challenge to any such conception.”<sup>16</sup> In the tradition to which Plato belongs, in contrast, there is no conflict between the true good of persons and the true good of the communities to which they belong.

When social contract theory is applied to the modern business corporation, we find a collection of individuals without a common good:

Organizational theorists have traditionally seen organizations not as social contracts but as social actors that have goals, pursue interests of their own, make decisions, follow policies, adapt, survive, die, and so on. In this view, organizations exist to achieve some common good or objective, and it seems logical to evaluate organizations on the basis of whether they attain their goals. The trouble is that organizational participants rarely agree on what these common goods or goals are.<sup>17</sup>

The difference between social contractarianism and the perennial philosophy is fundamentally metaphysical. According to the former, we are human atoms, each with our own, unique self-interest. (In contemporary microeconomics, this becomes our own, self-determined utility function.) The task of ethics is to find a way for all of us, with our conflicting self-interests, to cooperate. The mistaken belief that game theory can teach us something about ethics is rooted in this individualistic understanding of the human person.

According to the perennial philosophy, despite undeniable differences of personality, we share a common human nature and naturally have a common good. There certainly can be disagreement regarding what that common good is. But there can be no conflict between one’s true good and the true good of other members of one’s community.

## **2.2. Aristotle: Self-Love and Household Management**

Aristotle explains in the *Nicomachean Ethics* that to be ethical is not to act contrary to one’s own good, but instead to be a true lover of self. To live a virtuous life is best, both for one’s community and for oneself.

Aristotle argues that there are two ways of thinking about the relationship between loving oneself and living virtuously, one mistaken, the other correct. Most people mistakenly believe that self-love is opposed to the virtuous life. The error is that “those who use the term as one of reproach ascribe self-love to people who assign to themselves the greater share of wealth, honours, and bodily pleasures”.<sup>18</sup> The reason these people are vicious is neither that they love themselves nor

that they love themselves excessively, but that they seek inferior goods for themselves. The virtuous man, Aristotle argues, is actually the one who loves himself best, because he seeks the highest goods for himself:

It is true of the good man too that he does many acts for the sake of his friends and his country, and if necessary dies for them; for he will throw away both wealth and honours and in general the goods that are objects of competition, gaining for himself nobility; since he would prefer a short period of intense pleasure to a long one of mild enjoyment, a twelve-month of noble life to many years of humdrum existence, and one great and noble action to many trivial ones. Now those who die for others doubtless attain this result; it is therefore a great prize that they choose for themselves. They will throw away wealth too on condition that their friends will gain more; for while a man's friend gains wealth he himself achieves nobility; he is therefore assigning the greater good to himself. The same too is true of honour and office; all these things he will sacrifice to his friend; for this is noble and laudable for himself.... In this sense, then, as has been said, a man should be a lover of self; but in the sense in which most men are so, he ought not.<sup>19</sup>

Aristotle opens his *Politics* by asserting that we also act to attain something that we believe to be good: "Every state is a community of some kind, and every community is established with a view to some good; for mankind always act in order to obtain that which they think good."<sup>20</sup> According to Anglo-American capitalism, the business firm is established with a view to profit or owner-wealth maximisation. We should ask, however, whether that which capitalists think good is in fact good.

Aristotle distinguishes two species of wealth-acquisition, one natural and one artificial. The natural kind is limited and serves the good of the household: "There is one kind which by nature is a part of the management of a household, in so far as the art of household management must either find ready to hand, or itself provide, such things necessary to life, and useful for the community of the family or state, as can be stored."<sup>21</sup>

The artificial kind of wealth-acquisition belongs to business and is unlimited:

There is another variety of the art of acquisition which is commonly and rightly called an art of wealth-getting, and has in fact suggested the notion that riches and property have no limit. Being nearly connected with the preceding, it is often identified with it. But though they are not very different, neither are they the same. The kind already described is given by nature, the other is gained by experience and art.<sup>22</sup>

Aristotle does not envision the modern business corporation and does not ask whether a group of businesspersons could form a community. When we understand that it is natural for persons to work together in producing goods and services for the community, however, we can see that wealth-getting without limit is not the proper aim of the corporation. We should understand a firm's profit as a means to a greater good, not as an end in itself.

### **2.3. Cicero: Identifying one's Interests with those of the Community**

Although many contemporary scholars maintain that "the field of business ethics emerged during the 1970s",<sup>23</sup> Cicero presented the following case study several years earlier:

Suppose that there is a food-shortage and famine at Rhodes, and the price of corn is extremely high. An honest man has brought the Rhodians a large stock of corn from Alexandria. He is aware that a number of other traders are on their way from Alexandria – he has seen their ships making for Rhodes, with substantial cargoes of grain. Ought he to tell the Rhodians this? Or is he to say nothing and sell his stock at the best price he can get?<sup>24</sup>

Cicero then explains that two of his predecessors in the Stoic tradition disagreed concerning the solution:

In cases of this kind that eminent and respected Stoic Diogenes of Babylon habitually takes one side, and his very clever pupil Antipater of Tarsus the other. Antipater says that all the facts must be revealed, and the purchaser must be as fully informed as the seller. According to Diogenes, on the other hand, the seller must declare the defects of his wares as far as the law of the land requires, but otherwise – provided he tells no untruths – he is entitled, as a seller of goods, to sell them as profitably as he can.<sup>25</sup>

Cicero agrees with Antipater that “the corn-merchant ought not to have concealed the facts from the Rhodians”.<sup>26</sup> His account of Antipater’s argument shows that, like Plato and Aristotle, he understands that acting in the interest of the community does not require sacrificing self-interest, but instead requires identifying self-interest with the common good:

You ought to work for your fellow-men and serve the interests of mankind. These are the conditions under which you were born, these are the principles which you are in duty bound to follow and obey – you must identify your interests with the interests of the community, and theirs with yours. How, then can you conceal from your fellow-men that abundant supplies and benefits are due to reach them shortly?<sup>27</sup>

#### **2.4. Thomas Aquinas: Prudence and the Common Good**

The Angelic Doctor follows the Philosopher (Aristotle) in distinguishing vicious and virtuous self-love:

Those who love themselves are to be blamed, in so far as they love themselves as regards their sensitive nature, which they humour. This is not to love oneself truly according to one’s rational nature, so as to desire for oneself the good things which pertain to the perfection of reason: and in this way chiefly it is through charity that a man loves himself.<sup>28</sup>

The scriptural command to love one’s neighbour as oneself is interpreted or misinterpreted in various ways. Aquinas addresses it in answering the question whether, out of charity, man ought to love himself more than his neighbour:

It is written (Lev. 19:18, Mt. 22:39): “Thou shalt love thy neighbor (Lev. 19:18: ‘friend’) as thyself.” Whence it seems to follow that man’s love for himself is the model of his love for another. But the model exceeds the copy. Therefore, out of charity, a man ought to love himself more than his neighbor.<sup>29</sup>

For Aquinas, then, the transition from a vicious life to a virtuous life does not require renouncing self-love, but rather converting false self-love into true self-love.

Aquinas also provides a detailed account of prudence, right reason applied to action, as a virtue of the decision-maker. Although many modern moral philosophers oppose prudence and ethics, this would be impossible for Aquinas, because possession of prudence, the first cardinal virtue, is a necessary and sufficient condition for possessing the moral virtues.

For both Aquinas and modern philosophers who have rejected the Catholic tradition, prudence is self-regarding. Because Aquinas does not separate the individual good from the common good, prudence is both self-regarding and other-regarding: “Prudence regards not only the private good of the individual, but also the common good of the multitude”.<sup>30</sup> Once the individual good and the common good are separated, however, prudence becomes egoistic and ethics altruistic: “Moral theorists and society as a whole do distinguish between prudential reasons and moral reasons. ‘Prudential’ (from the word ‘prudence’) refers here to considerations of self-interest; ‘moral’ refers here to considerations of the interests of others and the demands of morality.”<sup>31</sup>

Although Aquinas clearly understands prudence as a virtue of the decision-maker, concerning the question whether businesspersons can be prudent, he is somewhat ambivalent. In one passage, he implies that they cannot be prudent. He considers an objection to his position that military prudence is a species of the virtue of prudence:

Just as military business is contained under political affairs, so too are many other matters, such as those of tradesmen, craftsmen, and so forth. But there are no species of *prudentia* corresponding to other affairs in the state. Neither therefore should any be assigned to military business.<sup>32</sup>

He meets this objection: “Other matters in the state are directed to the profit of individuals; but the business of soldiering is directed to the protection of the entire common good.”<sup>33</sup> The implication is that no species of prudence pertains to businesspersons, because their activities are directed to the profit of individuals, not to the good of an entire body politic.

In another passage, however, Aquinas argues that businesspersons can be truly, but imperfectly prudent. He writes that imperfect prudence

is indeed true prudence, because it devises fitting ways of obtaining a good end; and yet it is imperfect, from a twofold source. First, because the good which it takes for an end, is not the common end of all human life, but of some particular affair; thus when a man devises fitting ways of conducting business or of sailing a ship, he is called a prudent business-man, or a prudent sailor:—secondly, because he fails in the chief act of prudence, as when a man takes counsel aright, and forms a good judgment, even about things concerning life as a whole, but fails to make an effective command.<sup>34</sup>

Although empirical observation may lead one to conclude that all businesspersons are concerned only with enriching themselves, it is possible for businesspersons instead to intend to promote the common good. Therefore, commercial prudence is in fact a species of prudence, even if few businesspersons actually possess it. Since the most distinctive feature of the profession of business management is decision-making in complex situations, where no set of rules can tell us which is the right decision, we should understand managerial professional competence and judgment in terms of the cardinal virtue of prudence. Since prudence is both self-regarding and

other-regarding, the prudent business manager promotes both his own true good and the good of the other persons and communities affected by his decisions.

### 3. The Philosophical Foundation of Corporate Social Responsibility

The CSR movement is rooted in modern-Western philosophy. Although there is enormous diversity within modern-Western moral philosophy, most theories are distinguished from the Catholic tradition by their individualism and separation of ethics from self-interest. While Immanuel Kant and John Stuart Mill are generally considered to represent opposite poles in ethical theory, they agree at this point.

Although CSR borrows from a wide range of modern philosophers, it does so especially from the social contract tradition. This is explicit in many advocates of CSR: “The point of applying social contract reasoning to business is to clarify the moral foundations of productive organizations, of which corporations happen to be one kind.”<sup>35</sup> Or, as another promoter of CSR puts it:

The contract between business and society has evolved from the traditional view (Friedman’s minimalist view) – that economic growth was the source of all progress, social and economic – to one holding forth an organizational imperative to work for social as well as economic improvement (the stakeholder view). This latter, expanded meaning of corporate social responsibility included an implicit, informal social contract between the corporation and its employees.<sup>36</sup>

Stakeholderism is the most popular approach to CSR: “Investigating the many and varied views propounded around sustainability and CSR opened up the prospect of seeing that at its core is a practical benefit for all stakeholders.”<sup>37</sup> Furthermore, a number of business ethicists explicitly conjoin stakeholderism and social contractarianism: “We believe that empirically a social contract *does* exist in the United States and most other developed countries that requires management to recognize certain sets of stakeholder interests.”<sup>38</sup>

Anglo-American capitalism understands corporations as “legal fictions that serve as a nexus for a set of contracting relationships among individuals.”<sup>39</sup> The contribution of stakeholder analysis is to increase the number of individual parties to the social contract: “The term ‘stakeholder’ generally refers to anyone directly or even indirectly affected by a company’s operations.”<sup>40</sup> Included among stakeholders are “not just stockholders but also customers, employees, and business partners; local communities; government; worldwide public opinion; NGOs; and activists who represent the natural environment.”<sup>41</sup>

Accompanying the individualism of CSR is the opposition of self-interest and ethics: “Whether a person behaves ethically depends in some extent upon balancing self-interests against the interests of others or balancing self-interest against some sort of moral standard.”<sup>42</sup> On this view, which dominates the contemporary CSR literature, the task of ethics is to resolve conflicts between individuals’ varying interests:

Morality serves to restrain our purely self-interested desires so we can all live together. The moral standards of a society provide the basic guidelines for cooperative social existence and allow conflicts to be resolved by appeal to shared principles of justification.

If our interests never came into conflict – that is, if it were never advantageous for one person to deceive or cheat another – then there would be little need for morality.<sup>43</sup>

The position of Thrasymachus, which Plato understood to be false, has become the doctrine of contemporary business ethicists.<sup>44</sup>

### 3.1. Thomas Hobbes: Not Egoism, but Individualism

Thomas Hobbes was an early-modern social contractarian. Few people today admit to being Hobbesians, because the “Monster of Malmesbury”<sup>45</sup> is generally regarded as an egoist:

The concept of enlightened self-interest has dominated business for a long time. Thomas Hobbes planted the seeds in the early seventeenth century. He argued that humankind was fundamentally egotistic and devoid of any genuine feelings for the needs of others.<sup>46</sup>

Ethical egoism holds that one is always to do what will promote his own greatest good—that an act or rule of action is right if and only if it promotes at least as great a balance of good over evil for him in the long run as any alternative would, and wrong if it does not. This view was held by Epicurus, Hobbes, and Nietzsche, among others.<sup>47</sup>

John Rawls, the most influential twentieth-century social contractarian, excludes Hobbes from a list of his most significant predecessors: “My aim is to present a conception of justice which generalizes and carries to a higher level of abstraction the familiar theory of the social contract as found, say, in Locke, Rousseau, and Kant.” He then comments, in a footnote: “For all of its greatness, Hobbes’s *Leviathan* raises special problems.”<sup>48</sup> This is, apparently, an attempt to disassociate his own theory from Hobbes’s egoism.

Even Robert C. Solomon, an Aristotelian who understands that promoting the good of others is good for oneself, cannot resist the temptation to label Hobbes’s theory as selfish: “The very existence of the business enterprise and the prosperity and power of corporations suggest not the power of Hobbesian selfishness but rather the human capacity—both natural and cultural—to cooperate and organize, to serve one’s own interests by serving the interests of others.”<sup>49</sup>

If we understand ethical egoism to hold that one is always to do what will promote his own greatest good, then Thomas Aquinas was an ethical egoist and Thomas Hobbes was not. The latter was a modern philosopher, who held that ethics is about acting in the interests of others, instead of one’s own interest. After listing nineteen non-egoistic laws of nature, he adds:

And though this may seem too subtle a deduction of the Lawes of Nature, to be taken notice of by all men; whereof the most part are too busie in getting food, and the rest too negligent to understand; yet to leave all men inexcusable, they have been contracted into one easy sum, intelligible, even to the meanest capacity; and that is, *Do not that to another, which thou wouldest not have done to thy selfe*; which sheweth him, that he has no more to do in learning the Lawes of Nature, but, when weighing the actions of other men with his own, they seem too heavy, to put them into the other part of the ballance, and his own into their place, that his own passions, and selfe-love, may adde nothing to the weight; and then there is none of these Lawes of Nature that will not appear unto him very reasonable.<sup>50</sup>

Hobbes was not an ethical egoist. Neither did he plant the seeds of enlightened self-interest. Plato did so, when he had Socrates argue that to be just is better for oneself than to be unjust and that nothing can harm a good man. Hobbes is also innocent of the charge of arguing that humankind is devoid of any genuine feelings for the needs of others. His list of the passions includes benevolence or charity, kindness, liberality, and compassion or fellow-feeling.<sup>51</sup>

Hobbes fundamental mistake was not egoism, but individualism. Where Aristotle maintains that “man is by nature a political animal”,<sup>52</sup> Hobbes believed that the natural condition of mankind is “solitary”.<sup>53</sup> Given Aristotle’s understanding of human nature, to be ethical is good for oneself. Given Hobbes’ understanding, to be ethical often involves acting contrary to self-interest.

CSR is Hobbesian: at the expense of self-interest, managers should benefit many individuals, not only shareholders. CST conforms to standard definitions of “egoism”: managers should promote their own highest good by promoting the common good.

### 3.2. Adam Smith: The Invisible Hand and the Moral Sentiments

Adam Smith is generally considered to be both an egoist and the philosophical father of Anglo-American capitalism, usually on the basis of two passages in *The Wealth of Nations*:

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.<sup>54</sup>

By preferring the support of domestic to that of foreign industry, [an individual] intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.<sup>55</sup>

A number of business ethicists have discovered that Smith was not only a political economist, but also a moral philosopher, and that a complete reading of his works reveals that he was not an egoist.<sup>56</sup> In the words of Robert C. Solomon and Norman E. Bowie, respectively:

Most economists and free enterprise lobbyists refer only to *Wealth of Nations* and ignore that book’s place in the whole of Smith’s philosophy. In particular, they utterly ignore *The Theory of the Moral Sentiments* and its central thesis—never abandoned in the economic theory of *Wealth of Nations*—that people are naturally cooperative and sympathetic, and that their self-interest naturally includes concern for others and their opinions.<sup>57</sup>

The conventional wisdom says that Smith advocates a brand of ethical egoism that supports utilitarian results. . . . Actually Smith’s moral philosophy is a good deal more complicated. He believed that human beings possessed an innate sympathy for other human beings and that this capacity for sympathy is of greatest value for all of us.<sup>58</sup>

Solomon also maintains that “Smith is no individualist in the Hobbesian mode”.<sup>59</sup> Nevertheless, he acknowledges that Smith understood self-interest and ethics to be separate: “*The Theory of the Moral Sentiments* makes clear even if *Wealth of Nations* does not that self-interest must always be kept in balance with benevolence and the other moral sentiments.”<sup>60</sup> The basis of ethical theories that ask us to balance self-interest and morality is anthropological individualism.

Bowie attempts similarly to defend Smith, but also acknowledges that Smith separates ethics from self-interest:

Smith says that as a matter of fact we are not always motivated to act in accordance with our perceived best interest. Sometimes people act for the good of another or for the good of society. Of course people benefit from a society where altruism exists. However, people don't act altruistically because they will benefit. Smith does not reduce altruism to enlightened egoism.<sup>61</sup>

Smith belongs to a school of moral philosophy in which the traditional virtues are classified non-traditionally as either self-interested or other-interested: “When we consider the character of any individual, we naturally view it under two different aspects; first, as it may affect his own happiness; and secondly, as it may affect that of other people.”<sup>62</sup> Prudence, for Smith, is concerned with one's own happiness: “The care of the health, of the fortune, of the rank and reputation of the individual, the objects upon which his comfort and happiness in this life are supposed principally to depend, is considered as the proper business of that virtue which is commonly called Prudence.”<sup>63</sup> This is a fundamental break from the Catholic tradition, in which the virtue of prudence is concerned with both the individual good and the common good.

According to Smith, “Concern for our own happiness recommends to us the virtue of prudence; concern for that of other people, the virtues of justice and beneficence; of which, the one restrains us from hurting, the other prompts us to promote that happiness.”<sup>64</sup> These, then, are his three cardinal virtues; prudence egoistic, and justice and beneficence altruistic.

Solomon and Bowie are correct in pointing out that the father of Anglo-American capitalism was not an egoist. With Smith, as with Hobbes, the mistake is not egoism, but individualism. For Aristotle, to promote the common good by sacrificing one's life is to promote one's own good. For Smith, in contrast, private and public interest are separable: “The wise and virtuous man is at all times willing that his own private interest should be sacrificed to the public interest of his own particular order or society.”<sup>65</sup>

It is significant that Smith's ethical theory is one of moral *sentiments*. Aristotle argued that the virtues and vices are not passions, but states of character.<sup>66</sup> René Descartes, who became the father of modern philosophy by replacing metaphysics with epistemology as the starting point of philosophical inquiry, also transformed the traditional virtues and vices into “passions of the soul”.<sup>67</sup> Smith interprets the virtues tradition in such a way that each virtue is “founded upon” one sentiment and “the essence” of each virtue is a feeling or emotion:

The ancient moralists ... have only endeavoured to ascertain ... wherein consists the sentiment of the heart, upon which each particular virtue is founded, what sort of internal feeling or emotion it is which constitutes the essence of friendship, of humanity, of

generosity, of justice, of magnanimity, and of all the other virtues, as well as of the vices which are opposed to them....<sup>68</sup>

For Rawls, virtues simply *are* sentiments: “The virtues are sentiments, that is, related families of dispositions and propensities regulated by a higher-order desire, in this case a desire to act from the corresponding moral principles.”<sup>69</sup> Alasdair MacIntyre, an Aristotelian, comments: “It is no accident that [Rawls] divorces our commitment to both principles and virtues from any substantial belief in the good for man.”<sup>70</sup> Smith belongs to a tradition that uses the language of virtues in a way that would be unrecognisable to Plato and Aristotle.

By way of summary, three levels of interpreting Adam Smith can be distinguished. According to the overly-simplistic interpretation, he is an unqualified advocate of self-interested profit-maximisation. According to the simplistic interpretation, he is acquitted of the charge of egoism, because he also wrote a book on moral philosophy. At the next level, we can see that his moral theory is profoundly problematic. He is just as much a father of corporate social responsibility as he is of Anglo-American capitalism, because he accepts the modern dichotomy of egoism and altruism.

### **3.3. Immanuel Kant: Ethical Duty versus Self-Love**

Immanuel Kant is the most influential of moral philosophers opposed to the Catholic Tradition. It would be difficult to exaggerate the influence of his thought on subsequent ethics, including CSR. The founding document of stakeholder theory (as a theory of business ethics, rather than of strategic management) identifies itself explicitly as Kantian.<sup>71</sup>

The divergence of Kant’s secularised Lutheranism from Catholic ethical theory is extreme. Catholic ethics is ethics for human persons. Both the natural law and the moral virtues are what they are because human nature is what it is. If there are in the universe rational beings with natures different from our own, their ethical theories will also differ from ours. Kant, on the other hand, attempts to develop an ethical theory for all rational beings, without reference to the peculiarities of human nature:

Everyone must admit that a law, if it is to hold morally, i.e., as a ground of obligation, must imply absolute necessity; he must admit that the command, “Thou shalt not lie,” does not apply to men only, as if other rational beings had no need to observe it. The same is true for all other moral laws properly so called. He must concede that the ground of obligation here must not be sought in the nature of man or in the circumstances in which he is placed, but sought a priori solely in the concepts of pure reason.<sup>72</sup>

That Kant’s attempt to found his ethical theory on logic, rather than human nature and the good at which a human life should aim, was unsuccessful has been demonstrated by many authors. His categorical imperative works with a few carefully chosen examples, but is unable to distinguish the class of ethical actions from that of unethical actions. Nevertheless, his theory of ethics remains extremely popular today.

For purposes of the present argument, the most significant feature of Kantian moral philosophy is the divergence of ethical duty and self-love:

It sometimes happens that in the most searching self-examination we can find nothing except the moral ground of duty which could have been powerful enough to move us to this or that good action and to such great sacrifice. But from this we cannot by any means conclude with certainty that a secret impulse of self-love, falsely appearing as the idea of duty, was not actually the true determining cause of the will.<sup>73</sup>

So distinct and sharp are the boundaries between morality and self-love that even the commonest eye cannot fail to distinguish whether a thing belongs to the one or the other.<sup>74</sup>

The contrast with the classical and Catholic teaching that to act virtuously is to love oneself is stark: “To behold virtue in her proper form is nothing else than to exhibit morality stripped of all admixture of sensuous things and of every spurious adornment of reward or self-love.”<sup>75</sup> St. Augustine, who distinguishes the earthly city and the Heavenly City in terms of “self-love reaching the point of contempt for God” and “the love of God carried as far as contempt of self”,<sup>76</sup> adds an implicit distinction between vicious and virtuous self-love: “Now God, our master, teaches two chief precepts, love of God and love of neighbour; and in them man finds three objects for his love: God, himself, and his neighbour; and a man who loves God is not wrong in loving himself.”<sup>77</sup> Instead of distinguishing ethical and unethical self-love, Kant distinguishes self-love from morality: “The possibility of such a command as, ‘Love God above all and thy neighbour as thyself,’ agrees very well with [his own understanding of moral obligation].” He then adds in a footnote, “The principle of one’s own happiness, which some wish to make the supreme principle of morality, is in striking contrast to this law. This principle would read: ‘Love thyself above all but God and thy neighbour for thine own sake.’”<sup>78</sup>

Kant contrasts moral duty not only with self-love, but also with prudence, sometimes identifying the two: “The maxim of self-love (prudence) merely advises; the law of morality commands.”<sup>79</sup> For CST, prudence is a virtue, the possession of which is necessary and sufficient for possession of justice, fortitude, temperance and the other moral virtues. For Kant, prudence is contrasted to ethics: “It is a very different thing to make a man happy from making him good, and to make him prudent and farsighted for his own advantage is far from making him virtuous.”<sup>80</sup> This false opposition of prudence and ethics is found throughout the CSR literature. Norman Barry, for example, writes, “In most cases of corporate beneficence, it is not easy to see whether corporate beneficence is genuinely moral (i.e., if it was willingly approved by the shareholders) or merely prudent.”<sup>81</sup>

### **3.4. John Stuart Mill: Individualism and Altruism**

The “two favorite philosophers of business ethics”<sup>82</sup> are Immanuel Kant and John Stuart Mill. Kant, the deontologist, and Mill, the consequentialist, are usually presented as opposing alternatives in ethical theory. Mill does indeed criticise Kant for not being a consequentialist:

This remarkable man . . . lay[s] down a universal first principle as the origin and ground of moral obligation; it is this: “So act, that the rule on which thou actest would admit of being adopted as a law by all rational beings.” But when he begins to deduce from this precept any of the actual duties of morality, he fails, almost grotesquely, to show that there would be any contradiction, any logical (not to say physical) impossibility, in the adoption by all rational beings of the most outrageously immoral rules of conduct. All he

shows is that the consequences of their universal adoption would be such as no one would choose to incur.<sup>83</sup>

The disagreement between the two moral philosophers, however, is less significant than their agreement. Both have an individualistic understanding of human nature, with the consequence that acting ethically can involve acting contrary to one's own good.

Mill's commitment to individualism is explicit:

To give any fair play to the nature of each, it is essential that different persons should be allowed to lead different lives. In proportion as this latitude has been exercised in any age, has that age been noteworthy to posterity. Even despotism does not produce its worst effects, so long as individuality exists under it; and whatever crushes individuality is despotism, by whatever name it may be called, and whether it professes to be enforcing the will of God or the injunctions of men.<sup>84</sup>

Moreover, Mill's commitment to individualism is united with an aversion to authority, especially that of the Catholic Church: "Those who first broke the yoke of what called itself the Universal Church, were in general as little willing to permit difference of religious opinion as that church itself."<sup>85</sup> Protestantism soon disintegrated into theological pluralism, which paved the way for individualism, capitalism, liberal democracy and moral relativism, as well as the diversity of ethical theories within which CSR is now attempting to correct capitalism.

Mill opposes individuality and society. The individual is, or should be, the primary unit. Society is a composite of individuals:

In proportion to the development of his individuality, each person becomes more valuable to himself, and is therefore capable of being more valuable to others. There is a greater fullness of life about his own existence, and when there is more life in the units there is more in the mass which is composed of them.<sup>86</sup>

One consequence of this individualism is that there is no natural relationship between one's own good and the good of others. Morality is separated from prudence. Human nature includes a selfish part and a social part:

The means of development which the individual loses by being prevented from gratifying his inclinations to the injury of others, are chiefly obtained at the expense of the development of other people. And even to himself there is a full equivalent in the better development of the social part of his nature, rendered possible by the restraint put upon the selfish part.<sup>87</sup>

This distinction between the selfish and social parts of human nature stands in stark contrast to the philosophy of CST. For Aristotle, to be self-serving is to love oneself viciously and to be social is to love oneself virtuously. Because human nature is political, the virtues are both self-serving and other-serving. For Mill, on the other hand, we have "self-regarding virtues" and "social virtues".<sup>88</sup> He distinguishes "the part of a person's life which concerns only himself, and that which concerns others."<sup>89</sup> Because there is no natural harmony of the individual good and the common good, we should endeavour to approximate such harmony artificially:

Utility would enjoin, first, that laws and social arrangements should place the happiness, or (as speaking practically it may be called) the interest, of every individual, as nearly as possible in harmony with the interest of the whole; and secondly, that education and opinion, which have so vast a power over human character, should so use that power as to establish in the mind of every individual an indissoluble association between his own happiness and the good of the whole.<sup>90</sup>

Although Mill is an individualist, he is not an egoist.<sup>91</sup> His ethical theory is individualistic and altruistic. He maintains that there is no “inherent necessity that any human being should be a selfish egotist, devoid of every feeling or care but those which centre in his own miserable individuality.”<sup>92</sup> And he calls “the egotism which thinks self and its concerns more important than everything else, and decides all doubtful questions in its own favour” a “moral vice”.<sup>93</sup> Whatever may be the connotations of “utilitarian” in contemporary ordinary language, Mill cannot justly be accused of advocating egoism.

For Aristotle, to perform an act of “self-sacrifice” is both to act virtuously and to love oneself most, because such an act awards the highest to oneself. To sacrifice one’s own highest good would be highly unethical. For Mill, with the severance of one’s own good from the good of others, sacrificing one’s own greatest good may or may not be ethical, depending upon whether it results in a net increase of utility for everyone affected by the act:

The utilitarian morality does recognise in human beings the power of sacrificing their own greatest good for the good of others. It only refuses to admit that the sacrifice is itself a good. A sacrifice which does not increase, or tend to increase, the sum total of happiness, it considers as wasted. The only self-renunciation which it applauds, is devotion to the happiness, or to some of the means of happiness, of others; either of mankind collectively, or of individuals within the limits imposed by the collective interests of mankind.<sup>94</sup>

The resulting theory of moral philosophy is fundamentally opposed to the philosophy of CST. For Catholics, to be ethical is to promote one’s own highest good by promoting the good of other persons. For Mill, to be ethical is to regard one’s own interest and the interests of others as separate, and to maximise aggregate utility, while assigning the same weight to one’s own utility as to that of every other individual:

The happiness which forms the utilitarian standard of what is right in conduct, is not the agent’s own happiness, but that of all concerned. As between his own happiness and that of others, utilitarianism requires him to be as strictly impartial as a disinterested and benevolent spectator. In the golden rule of Jesus of Nazareth, we read the complete spirit of the ethics of utility. To do as you would be done by, and to love your neighbour as yourself, constitute the ideal perfection of utilitarian morality.<sup>95</sup>

Rather than being regarded as the two chief alternatives in ethical theory, the theories of Kant and Mill should be understood as corruptions of fragments of Thomistic moral philosophy, which is simultaneously deontological and teleological without inconsistency. When we gain this understanding, we also understand how much we have lost.

#### **4. Conclusion: Agency Theory, Corporate Social Responsibility and Catholic Social Thought**

According to the dominant theory of business management, agency theory,<sup>96</sup> the managers of a business corporation should maximise the long-term wealth of its owners. Among this theory's vices is incoherence. Why should managers, who are assumed to be rational maximisers of their own utility, pursue the maximisation of someone else's wealth? This would be rational, only if owner-wealth maximisation were dominant within each manager's utility function. Most managers, however, like most other investors, reduce the risk of their investment portfolios through diversification. Maximisation of their own wealth may diverge significantly from maximisation of the share price of the firms for which they work.

Some corporate boards have attempted to align managerial self-interest with owner-wealth maximisation by linking executive remuneration to share price, for example, through stock options. In the case of Enron Corporation, most infamously, managers with such compensation packages increased their personal remuneration by elevating share price artificially and fraudulently, resulting in a windfall for themselves and long-term wealth-minimisation for their shareholders.

Furthermore, agency theory is unethical, and consequently false, because some owner-wealth-maximising actions are unethical. Nevertheless, it has at least the virtue of theoretical simplicity. Managers have a single objective. In the real world, of course, it is often impossible to determine which action would in fact result in the maximisation of owner wealth.

CSR recognises that agency theory is false, but is an inadequate corrective, because it fails to correct agency theory's fundamental error: individualism. It increases the number of individual parties to the social contract, without providing the manager any guidance, practical or theoretical, regarding how to adjudicate the many conflicts of interest. As Dennis McCann writes in stating his disagreement with Thomas Donaldson's "integrated social contract theory":

I do not subscribe to this paradigm because I believe that the social contract paradigm is based on an erroneous view of human nature, one that overemphasizes our individual rather than social characteristics, and because I think that the social contract approach does not resolve the problem of establishing ethical priorities among the conflicting claims of various stakeholders.<sup>97</sup>

CSR is also confronted with an insoluble problem of moral motivation. After the modern ethical theories upon which CSR is based separate self-love from ethics, they are faced with but cannot answer the question: Why should I be ethical, instead of doing what is best for myself? CSR is likewise unable to explain why business managers should promote the interests of stakeholders, rather than the interest of their own companies. The "business case" for CSR maintains that ethical actions are in the long-term financial interest of the firm: "There is increasing evidence being documented and shared demonstrating that socially responsible business practices can actually increase profits."<sup>98</sup> This attempt to solve the problem, however, is unsuccessful. Although it is certainly true that ethical business management sometimes leads to increased profits, we cannot avoid the truth that socially responsible practices sometimes result in reduction of financial gain.<sup>99</sup>

CSR, like the ethical theories in which it is rooted, suffers from the dualism of practical reason. Once individualism separates self-interest from the interests of others, the moral agent is faced with a dilemma. Capitalism chooses the egoistic horn of the dilemma (but then expects managers to maximise owner-wealth rather than their own). CSR chooses the altruistic horn. Since most of us act most of the time in order to obtain something that we perceive as good for ourselves, capitalism is extremely popular and CSR is generally ignored. Although it is possible theoretically to be both an individualist and an altruist, it is nearly impossible to put such a theory into practice.

CST, like agency theory, gives managers a single objective: promote the common good. Just as it is usually unclear in the real world which action will maximise long-term owner wealth, it is often not obvious which action will best promote the common good. In contrast to stakeholder theory, however, CST is able to state at the theoretical level what managers should do. Deciding what to do at the practical level requires the cardinal virtue of prudence.

CST also solves the problem of moral motivation. The business manager should promote the common good, rather than maximising owner wealth, because doing so is good not only for the corporation and the larger communities to which it belongs, but also for the manager. The business case's attempt to establish a financial harmony of financial self-interest and altruism is unsuccessful. CST provides an ethical harmony of true self-love and true corporate social responsibility.

## Notes

<sup>1</sup> Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits", *New York Times Magazine*, 13 September 1970. Cf. Edward W. Younkens: "To use an abstract term such as community or society is to refer to certain persons sharing particular characteristics and related in specifiable ways.... Society is no more than the sum of individuals comprising it.... Corporations are viewed as expressions of individual freedom, do not derive their power from society, owe nothing to the community, and need only pay taxes and adhere to government regulations.... The social responsibility of corporations is limited to respecting the natural rights of all individual parties" ("Two Perspectives on Corporate Social Responsibility", *Capitalism & Commerce* [Montréal, Quebec, Canada], No. 84, 9 June 2001.

<sup>2</sup> Henry Sidgwick, *The Methods of Ethics*, 7th Ed. (London: Macmillan, 1907), pp. xxi & 404 note.

<sup>3</sup> John Paul II, Encyclical Letter *Centesimus annus* (1 May 1991), 42.

<sup>4</sup> Plato, *Republic*, trans. Benjamin Jowett, 343c.

<sup>5</sup> Plato, *Republic*, 357b.

<sup>6</sup> Plato, *Apology*, trans. Hugh Tredennick, 41d.

<sup>7</sup> Friedman, "The Social Responsibility of Business Is to Increase Its Profits".

<sup>8</sup> Lynn Sharp Paine, *Value Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance* (New York: McGraw-Hill, 2003), pp. 144-45.

<sup>9</sup> Plato, *Republic*, 358e-359a.

<sup>10</sup> Plato, *Republic*, 369b.

<sup>11</sup> John Locke, *An Essay Concerning the True Original, Extent, and End of Civil Government (Second Treatise of Civil Government)* (London: Awnsham Churchill, 1690), Chapter 8.

<sup>12</sup> Jean-Jacques Rousseau, *On the Social Contract*, trans. Donald A. Cress (Indianapolis and Cambridge: Hackett, 1987), Book I, Chapter 4.

<sup>13</sup> Rousseau, *On the Social Contract*, Book I, Chapter 1.

<sup>14</sup> Rousseau, *On the Social Contract*, Book I, Chapter 6.

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- <sup>15</sup> Rousseau, *On the Social Contract*, Book I, Chapter 7.
- <sup>16</sup> John Rawls, *A Theory of Justice* (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1971), p. 136.
- <sup>17</sup> Michael Keeley, “Continuing the Social Contract Tradition”, *Business Ethics Quarterly*, Vol. 5, No. 2 (April 1995), p. 250.
- <sup>18</sup> Aristotle, *Nicomachean Ethics*, trans. W. D. Ross, 1168b16-17.
- <sup>19</sup> Aristotle, *Nicomachean Ethics*, 1169a18-1169b2.
- <sup>20</sup> Aristotle, *Politics*, trans. Benjamin Jowett, 1252a1-3.
- <sup>21</sup> Aristotle, *Politics*, 1256b27-31.
- <sup>22</sup> Aristotle, *Politics*, 1256b40-1257a4.
- <sup>23</sup> Bjørn Andersen, *Bringing Business Ethics to Life: Achieving Corporate Social Responsibility* (Milwaukee: ASQ Quality Press, 2004), p. 24. There is, in fact, a significant but neglected body of Catholic business ethics literature from the decades preceding the 1970s.
- <sup>24</sup> Cicero, *De Officiis*, trans. Michael Grant (Harmondsworth, Middlesex, England: Penguin Books, 1960), Book III, Chapter 6.
- <sup>25</sup> *Ibid.*
- <sup>26</sup> *Ibid.*
- <sup>27</sup> *Ibid.*
- <sup>28</sup> Thomas Aquinas, *Summa Theologiae*, trans. Fathers of the English Dominican Province (London, 1911; Rev. Ed. 1920), II-II, q. 25, a. 4.
- <sup>29</sup> Aquinas, *Summa Theologiae*, II-II, q. 26, a. 4.
- <sup>30</sup> Aquinas, *Summa Theologiae*, II-II, q. 47, a. 10.
- <sup>31</sup> William H. Shaw and Vincent Barry, *Moral Issues in Business*, 5th Ed. (Belmont, California: Wadsworth, 1992), p. 381.
- <sup>32</sup> Aquinas, *Summa Theologiae*, II-II, q. 50, a. 4.
- <sup>33</sup> Aquinas, *Summa Theologiae*, II-II, q. 50, a. 4.
- <sup>34</sup> Aquinas, *Summa Theologiae*, II-II, q. 47, a. 13.
- <sup>35</sup> Thomas Donaldson, *The Ethics of International Business* (New York and Oxford: Oxford University Press, 1989), p. 47.
- <sup>36</sup> Thomas A. Hemphill, “Legislating Corporate Social Responsibility”, *Business Horizons*, March-April 1997.
- <sup>37</sup> David E. Hawkins, *Corporate Social Responsibility: Balancing Tomorrow’s Sustainability and Today’s Profitability* (Houndmills, Basingstoke, England: Palgrave Macmillan, 2006), p. xi.
- <sup>38</sup> Thomas W. Dunfee and Thomas Donaldson, “Contractarian Business Ethics: Current Status and Next Steps”, *Business Ethics Quarterly*, Vol. 5, No. 2 (April 1995), p. 181.
- <sup>39</sup> Michael C. Jensen and William H. Meckling, “Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure”, revised version, in *Economics and Social Institutions: Insights from the Conferences on Analysis & Ideology*, ed. Karl Brunner (Boston: Martinus Nijhoff, 1979), p. 171.
- <sup>40</sup> Jeffrey Hollender and Stephen Fenichell, *What Matters Most: How a Small Group of Pioneers Is Teaching Social Responsibility to Big Business, and Why Big Business Is Listening* (New York: Basic Books, 2003), p. 54.
- <sup>41</sup> Chris Laszlo, *The Sustainable Company: How to Create Lasting Value through Social and Environmental Performance* (Washington: Island Press, 2005), p. 6. It should be noted that some Catholic scholars see the possibility of reconciling CST and stakeholder theory. George E. Garvey sees the possibility of reconciling CST with *both* stakeholderism *and* shareholder-value maximisation, depending upon the situation in which one is managing: “May managers simply maximize the investors’ returns or, alternatively, should they attempt to protect the interests of all firm ‘stakeholders’? Catholic social thinking is typically moderated and balanced, and this issue is no exception. It is possible to find support, with qualifications, for both the profit-maximizing and stakeholder-interest-maximizing models of managerial responsibility.... The Church merely requires those who are involved in the formulation of

policy to consider seriously and account for the implications of their choices as they relate to the dignity of all ‘stakeholders,’ particularly the workers, and the common good” (“The Theory of the Firm, Managerial Responsibility, and Catholic Social Teaching”, *Journal of Markets & Morality*, Vol. 6, No. 2 [Fall 2003], pp. 534-35). Garvey reaches this conclusion, because he assumes that there are “two, competing theories related to the responsibilities of managers” (p. 528). There are, in fact, more than two competing theories.

<sup>42</sup> Kenneth Koford and Mark Penno, “Accounting, Principal-Agent Theory, and Self-Interested Behavior”, in Norman E. Bowie and R. Edward Freeman, eds., *Ethics and Agency Theory: An Introduction* (New York: Oxford University Press, 1992), p. 131.

<sup>43</sup> Shaw and Barry, *Moral Issues in Business*, p. 16.

<sup>44</sup> There are counterexamples within the CSR literature. Patricia Aburdene’s theory of socially-responsible “conscious capitalism” is based upon “enlightened self-interest”, as distinguished from altruism: “The doctrine of Conscious Capitalism holds that business bears moral and ethical responsibilities beyond short-term profit and maximum shareholder return. Equally important, it lifts the frequency of free enterprise from self-interest to the higher octave of enlightened self-interest. Enlightened self-interest is not altruism. It is self-interest with a wider view” (*Megatrends 2010: The Rise of Conscious Capitalism* [Charlottesville, Virginia: Hampton Roads, 2005], p. 175).

<sup>45</sup> This phrase is from the title of a book published anonymously in 1680: *The True Effigies of the Monster of Malmesbury: or, Thomas Hobbes in his proper Colours*. Hobbes was born in Malmesbury, Wiltshire, England.

<sup>46</sup> Laura L. Nash, *Good Intentions Aside: A Manager’s Guide to Resolving Ethical Problems* (Boston: Harvard Business School Press, 1990), p. 54.

<sup>47</sup> William K. Frankena, *Ethics*, 2nd Ed. (Englewood Cliffs, New Jersey: Prentice-Hall, 1973), p. 15.

<sup>48</sup> Rawls, *A Theory of Justice*, p. 11.

<sup>49</sup> Robert C. Solomon, *Ethics and Excellence: Cooperation and Integrity in Business* (New York and Oxford: Oxford University Press, 1992), p. 183.

<sup>50</sup> Thomas Hobbes, *Leviathan, or the Matter, Forme, & Power of a Common-wealth, Ecclesiasticall and Civill* (London: Andrew Crooke, 1651), Part I, Chap. 15.

<sup>51</sup> Hobbes, *Leviathan*, Part I, Chap. 6.

<sup>52</sup> Aristotle, *Politics*, 1253a2-3.

<sup>53</sup> Hobbes, *Leviathan*, Part I, Chap. 13.

<sup>54</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: W. Strahan and T. Cadell, 1776), Book I, Chap. 2.

<sup>55</sup> Smith, *The Wealth of Nations*, Book IV, Chap. 1.

<sup>56</sup> The discovery that Smith also wrote a book on moral philosophy has trickled down to the popular CSR literature: “For all his enthusiasm about the ‘invisible hand’ of market forces working without human intervention, his earlier work—*The Theory of Moral Sentiments*—laid out a comprehensive argument for morality and compassion in both commercial and governmental affairs. Smith, in short, was no hard-hearted capitalist” (Hollender and Fenichell, *What Matters Most*, p. 36).

<sup>57</sup> Solomon, *Ethics and Excellence*, pp. 85-86.

<sup>58</sup> Norman E. Bowie, “Business Ethics as a Discipline: The Search for Legitimacy”, in R. Edward Freeman, ed., *Business Ethics: The State of the Art* (New York and Oxford: Oxford University Press, 1991), pp. 36-37.

<sup>59</sup> Solomon, *Ethics and Excellence*, p. 86.

<sup>60</sup> Solomon, *Ethics and Excellence*, p. 87.

<sup>61</sup> Bowie, “Business Ethics as a Discipline”, p. 37.

<sup>62</sup> Smith, *The Theory of Moral Sentiments* (London: A. Millar and Edinburgh: A. Kincaid and J. Bell, 1769), Part VI, Introduction.

<sup>63</sup> Smith, *The Theory of Moral Sentiments*, Part VI, Sect. I.

<sup>64</sup> Smith, *The Theory of Moral Sentiments*, Part VI, Conclusion.

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- <sup>65</sup> Smith, *The Theory of Moral Sentiments*, Part VI, Sect. II, Chap. 3.
- <sup>66</sup> Aristotle, *Nicomachean Ethics*, 1105b29-1106a7.
- <sup>67</sup> René Descartes, *Les Passions de l'Âme* (Paris: Henry le Gras and Amsterdam: Louis Elzevir, 1649).
- <sup>68</sup> Smith, *The Theory of Moral Sentiments*, Part VII, Sect. IV.
- <sup>69</sup> Rawls, *A Theory of Justice*, p. 192.
- <sup>70</sup> Alasdair MacIntyre, *After Virtue: A Study in Moral Theory*, 2nd Ed. (Notre Dame, Indiana: University of Notre Dame Press, 1984), p. 233.
- <sup>71</sup> W. M. Evan and R. E. Freeman, "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism", in T. L. Beauchamp and N. E. Bowie, eds., *Ethical Theory and Business*, 4th Ed. (Englewood Cliffs, New Jersey: Prentice Hall, 1993), pp. 75-84.
- <sup>72</sup> Immanuel Kant, *Foundations of the Metaphysics of Morals*, trans. Lewis White Beck (New York: Macmillan, 1959), Preface.
- <sup>73</sup> Kant, *Foundations of the Metaphysics of Morals*, Section II.
- <sup>74</sup> Kant, *Critique of Practical Reason*, trans. Lewis White Beck (New York: Macmillan, 1985), Part I, Book I, Chap. 1.
- <sup>75</sup> Kant, *Foundations of the Metaphysics of Morals*, Section II (note).
- <sup>76</sup> Augustine, *The City of God*, trans. Henry Bettenson (Harmondsworth, Middlesex, England: Penguin Books, 1972), Book XIV, Chap. 28.
- <sup>77</sup> Augustine, *The City of God*, Book XIX, Chap. 14.
- <sup>78</sup> Kant, *Critique of Practical Reason*, Part I, Book I, Chapter 3.
- <sup>79</sup> Kant, *Critique of Practical Reason*, Part I, Book I, Chapter 1.
- <sup>80</sup> Kant, *Foundations of the Metaphysics of Morals*, Section II.
- <sup>81</sup> Norman Barry, "Do Corporations Have Any Responsibility Beyond Making a Profit?" *Journal of Markets & Morality*, Vol. 3, No. 1 (Spring 2000), p. 103.
- <sup>82</sup> Joseph L. Badaracco and Allen P. Webb, "Business Ethics: A View from the Trenches", *California Management Review*, Vol. 37, No. 2 (Winter 1995), p. 25.
- <sup>83</sup> John Stuart Mill, *Utilitarianism* (London, 1863), Chapter 1.
- <sup>84</sup> John Stuart Mill, *On Liberty* (London: 1859), Chapter 3.
- <sup>85</sup> Mill, *On Liberty*, Chapter 1.
- <sup>86</sup> Mill, *On Liberty*, Chapter 3.
- <sup>87</sup> *Ibid.*
- <sup>88</sup> Mill, *On Liberty*, Chapter 4.
- <sup>89</sup> Mill, *On Liberty*, Chapter 4.
- <sup>90</sup> Mill, *Utilitarianism*, Chapter 2.
- <sup>91</sup> Mill writes that political economists should assume that we are wealth-maximisers, even though this is not true: "Political Economy considers mankind as occupied solely in acquiring and consuming wealth.... Under the influence of this desire, it shows mankind accumulating wealth, and employing that wealth in the production of other wealth.... All these operations, though many of them are really the result of a plurality of motives, are considered by Political Economy as flowing solely from the desire of wealth. The science then proceeds to investigate the laws which govern these several operations, under the supposition that man is a being who is determined, by the necessity of his nature, to prefer a greater portion of wealth to a smaller in all cases.... Not that any political economist was ever so absurd as to suppose that mankind are really thus constituted, but because this is the mode in which science must necessarily proceed" (passage found in both *A System of Logic, Ratiocinative and Inductive*, 8th Ed. [London: Longmans, Green, Reader, and Dyer, 1872], Book 6, Chap. 9, §3 and *Essays on Some Unsettled Questions of Political Economy*, 2nd Ed. [London: Longmans, Green, Reader, and Dyer, 1874], Essay V: "On the Definition of Political Economy; and on the Method of Investigation Proper to It"). Mill fails to explain persuasively why the science of political economy should be based upon an assumption that is understood to be false.
- <sup>92</sup> Mill, *Utilitarianism*, Chapter 2.

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<sup>93</sup> Mill, *On Liberty*, Chapter 4.

<sup>94</sup> Mill, *Utilitarianism*, Chapter 2.

<sup>95</sup> Mill, *Utilitarianism*, Chapter 2.

<sup>96</sup> “Agency theory” derives its name from the false assertion that the managers of a business corporation are agents of its owners. Managers are in fact agents of the corporation, not of its owners. Given the theory’s individualistic metaphysical assumptions, however, corporations do not exist; only individuals exist. Consequently, it would be nonsense to say that managers are agents of the corporation. Therefore, they must be agents of the corporation’s owners.

<sup>97</sup> Dennis P. McCann, “Do Corporations Have Any Responsibility Beyond Making a Profit? A Response to Norman P. Barry”, *Journal of Markets & Morality*, Vol. 3, No. 1 (Spring 2000), p. 113.

<sup>98</sup> Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause* (Hoboken, New Jersey: John Wiley & Sons, 2005), p. 208. Cf. Aburdene: “Socially responsible firms repeatedly achieve first-rate financial returns that meet and often beat the market and their peers, proving morals and money may be curiously compatible, after all.... Why do moral companies perform so well financially? The answer, say many experts, is that corporate responsibility is a proxy for good management—and good management is *the* prime indicator of superior financial performance” (*Megatrends 2010*, pp. 29-30).

<sup>99</sup> David Vogel concludes that there is a business case for CSR only under certain circumstances: “A review of the evidence, including academic studies of the relationship between profitability and responsibility and the relative performance of SRI [socially responsible investing], finds little support for the claim that more responsible firms are more profitable. But this does not mean that there is no business case for virtue. It is rather to suggest that any such claim must be more nuanced. CSR does make business sense for some firms in specific circumstances” (*The Market for Virtue: The Potential and Limits of Corporate Social Responsibility* [Washington: Brookings Institution Press, 2006], p. 45).