Interdisciplinary Yearbook of Business Ethics 2006
Impressum page
Interdisciplinary Yearbook of Business Ethics

The yearbook aims to present and summarize new perspectives and cutting-edge results in business ethics and related fields.

The yearbook reports on innovative practices and policy reforms and provides a forum for discussion about theories that break new ground. The ‘Opinions’ section gathers critical reflections on topical issues of business and society. The ‘Debate’ section presents comments by a range of scholars and practitioners on provocative new ideas in ethics.

The yearbook aims to form a value-community of scholars, practitioners and policy-makers engaged in genuine ethics in business, environmental management, and public policy.

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The Interdisciplinary Yearbook of Business Ethics, 2006

It is my pleasure to introduce the first volume of the *Interdisciplinary Yearbook of Business Ethics*. The yearbook is a product of 21 scholars and practitioners from Europe, America, Asia and Africa. Contributors represent a diversity of fields including organizational science, economics, systems theory, personality psychology, business ethics, finance, management, philosophy, political science, sociology, and ecology. All the papers stand for a more human and ethical approach to economics and business.

In his paper “The Myth of Rationality,” American organizational scientist James G. March of Stanford University shows that the case against the myth of rationality is reasonably strong. Rationality has problems as a description of human behavior, as a prescription for human behavior, and as a characterization of the human spirit. March argues that the real excitement lies not in inventing complicated arguments that fit human existence into the myth of rationality but in exploring alternative visions.

He explores four alternative visions. He begins with a vision of human existence organized around *identities* rather than instrumental choices. In this vision duties and obligations are more central than preferences and interests. The key processes are to discover and create conceptions of self and match them to situations. Second, he explores a vision of human existence organized around the *search* for *meaning*. In this perspective, the focus shifts from action to interpretation. We consider the ways in which the symbols of life are organized to shape the telling of accounts. Third is a vision of human existence enriched by *ambiguity*, contradiction, inconsistency, ambivalence, and irrelevance. Fourth is a vision of human existence defined as *path dependent*, as traversing a history characterized by local positive feedback, multiple equilibria, and irreversibilities.

Considering human beings (and organizations) as identity-seeking, interpreting, ambiguous and path-dependent entities has great significance to business ethics, as it badly needs a more realistic concept of man.

In his paper “Ethical Anchoring of Corporate Social Responsibility,” Italian economist Stefano Zamagni of the University of Bologna deals with two questions: How robust are the critiques against corporate social responsibility (CSR)? and Which ethical anchoring can offer more solid support for CSR? Zamagni shows that the mother of all criticism of CSR, Milton Friedman’s, is untenable. Friedman advocates that the only social responsibility of business is to increase its profit. Zamagni convincingly argues that in suggesting that the only social responsibility a firm has is to increase profits, Friedman and other like-minded scholars must presuppose conditions under which firms don’t get more profits.
Zamagni examines alternative ethical theories for anchoring CSR. He favors the *ethic of virtues* because it resolves the opposition between self-interest and interest for others. The solution to moral motivation of managers is not that of setting constraints or providing incentives for acting against their self-interest, but to offer them a more complete understanding of their own well-being. Only when ethics becomes part of the objective-function of the agents does moral motivation cease to be a problem. Since institutions influence economic performance, the task is to intervene in the institutional setup of society to encourage disseminating civic virtues. If the market can compensate for the civil culture of the firm, in the long run the dispositional and the motivational structure of the economic agents will adapt as a result.

In his paper “Boundary Critique: a New Approach to Professional and Business Ethics,” systems theorist and philosopher Werner Ulrich (University of Fribourg & The Open University, Milton Keynes) stresses that most approaches to professional and business ethics seek to ground ethical practice in ethical theory. But this does not work. *Ethical theory* can provide us with basic principles or general norms of ethical action; but, because there is hardly ever one right way to define an ethical problem, it cannot tell us which specific concerns and stakeholders “count” in a concrete action.

Ulrich believes that *critical pragmatism*, a pragmatist view of ethics following the philosophy of American pragmatism, might help. Rather than seeking generic theoretical criteria of moral action, we should seek practical ways of dealing critically with contexts of action. The *ethical boundary critique* – a methodology developed by him – aims at exposing the moral implications of claims posed by different interested parties. It aims to trace a claim’s ethical implications within a wider context and to unfold the claim’s distributive effects.

Ulrich’s methodology can be used in revitalizing the moral and democratic vision of business in which people regulate their conflicts in peaceful ways, through processes of decision making and conflict settling that are argumentatively and democratically based.

The paper “Moral Disengagement in the Exercise of Civic-ness” by Italian psychologists Gian Vittorio Caprara and Cristina Campana (University of Rome “La Sapienza”) starts with the observation that a division between thought and action takes place when people break the rules or get involved in dirty business. What is most surprising in rule violation and misconduct is that people are not bothered by their conscience, do not fear any sanction and do not feel obliged to make reparations.

Caprara and Campana are indebted to world-renowned Stanford psychologist Albert Bandura, who discovered the *mechanisms of moral disengagement*, the psychosocial maneuvers by which moral self-sanctions become disengaged, giving free way to a variety of misbehaviors without carrying any moral concern. Self-sanctions can be disengaged
by reconstructing the conduct, obscuring personal causal agency, misrepresenting or disregarding the injurious consequences of one’s actions, and vilifying the recipients of maltreatment by blaming and devaluing them.

Caprara and his team developed a scale to assess civic moral disengagement (CMD). Their empirical findings suggest that the more people are concerned with self-enhancement goals, the more they are inclined to resort to mechanisms that permit them to disengage from the duties and obligations of civic life and to justify transgressions when their self-interest is at stake.

This result has important consequences for economics because it can refute the naive belief of Adam Smith and his followers in the beneficial impact of the “Invisible Hand” of the market. If economic agents become self-concerned then it is likely that – by employing moral disengagement mechanisms – their self-exonerative maneuvers will do harm to others. In serving the common good we need agents who care about and pursue self and community interests.

In his paper “Ethical Decision Making,” Hungarian business ethicist Laszlo Zsolnai of Corvinus University of Budapest argues that the self-centeredness of modern organizations leads to environmental destruction and human deprivation. Using Hans Jonas’ principle of responsibility Zsolnai claims that ethical decision making should create a synthesis of reverence for ethical norms, rationality in goal achievement, and respect for the stakeholders. The ethical decision can be made by the maximin rule, which selects the “least worst alternative” in the multidimensional decision space of deontological, goal-achievement and stakeholder values.

In Zsolnai’s view the ethical decision maker is characterized as having the ability to take multiple perspectives and make right balances across diverse value dimensions. Modern organizations should develop a critical sensitivity to and empathy toward human and non-human beings with which they share a common environment.

In his paper “Authenticity,” British economist and writer David Boyles (New Economics Foundation, London) criticizes fake in business. He states that more and more people search for authentic living. They are turning against lies – the big corporate lie that artificial food, artificial intelligence, virtual sex, virtual teachers and bank managers are as good or as real as the real thing. Boyles observes that there is an increasing commitment to real food, real culture, real politics, real schools, real community, real medicine, real culture, real stories. This is apparent in the rise of local brands, real ale, reading groups, organic vegetables, complementary medicine, slow food, poetry recitals, unmixed music, materiality in art and unbranded vintage fashions. These are all symptoms of the same thing – a demand for human-scale, face-to-face institutions and real experience.
**Humanity** is the essence of authenticity, and it is why the big brands have difficulty meeting this demand. They are one-dimensional non-human approximations. Demand for authenticity has been the way companies are rowing backwards from the Coca-Cola ideal – the same everywhere – to one where every package tells a story of its own.

So what can companies do to be authentic? asks Boyles. Principles of authenticity can be put into practice: (i) Avoid glitz and rationalized delivery systems, and garner trust by telling simple stories and wandering off-message as needed. (ii) Connect with what is human – either because the brand is an expression of one personality, or because it shows the personalities of the people behind it, or because the service is genuinely personal. (iii) Have genuine roots to a specific place, or create a portal to ordinary producers or sellers in specific places. (iv) Allow customers and employees to feel better connected to their own ideals and values.

In his paper “The Maturation of Sustainable Investment,” American financial expert Robert Earhart (Brooklyn Bridge/TBLI Group, Amsterdam) focuses on sustainable investment (SRI) as a specialized financial practice and shows that it is going mainstream. More assets are flowing into SRI investments. From 1995 to 2003, public equity assets under management subjected to some form of social or environmental screening grew by 240 percent. As of 2003, 11.3 percent of assets under management, $2,164 billion, were covered under some form of screening in the United States. Individual activism, corporate activism, and the increase in information technology, combined with recent scandals and the need to cater to individual investors, are drivers for the increase in sustainable investment in the corporate and financial world.

We do not know yet – argues Earhart – whether this is a lasting trend. The obstacles SRI is facing are based on how it is defined by financial institutions, how it is regulated, and how it can be presented to the consumer. Politics will determine how quickly or slowly sustainable investment becomes part of our economies, as governmental and regulatory policies affect the true financial cost or benefit of these investments.

In their paper “The Ethical Consumerism Movement,” Hungarian political scientist Zsolt Boda and sociologist Emese Gulyas (Corvinus University of Budapest) distinguish between ethical consumption as a link of personal consumption with environmental, human and animal rights concerns and ethical consumerism as a new political movement by which people seek to consciously influence economic and social institutions. They stress that today the goals of ethical consumer movements are moving beyond the logic of single-issue movements. Boycotts are still launched against individual companies, and “specialized” NGOs exist which focus their activities on one topic. But, more and more organizations emphasize complex objectives promoting social and
environmental sustainability, global justice and fairness towards society, nature and the future generations.

Boda and Gulyas argue that ethical consumerism is one among many social movements that shows today’s conflicts between business and society. It should not be seen as isolated from anti-corporate protests, the alter-globalization movement, CSR initiatives and developments in ethical investment. It might significantly contribute to raising the ethicality of business, because consumers are supposed to be the most important stakeholders of firms, on which the companies’ survival depends. Ethical consumerism has certainly gained considerable strength and it can be predicted that it will continue to organize itself, using new communication means and building on new sensibilities.

The paper “Gross National Happiness” by American investment analyst Frank Dixon (Innovest, New York) concerns improving unsustainable Western economic systems. He introduces the Gross National Happiness index (GNH) which is intended to be a more accurate measure of social well-being than Gross National Product (GNP), the primary indicator of social well-being in Western nations.

He believes that Western economic systems have produced great improvements in many areas including technology, medicine and the provision of essential and non-essential goods and services. But, as industrial economies continue to grow in a finite world the impact is increasingly negative. Inefficient use of resources, high levels of pollution and many social disruptions resulting from industrialization have caused human society to be grossly unsustainable.

Dixon argues that GNP is a crude measure that counts many social negatives as positive (for example, incarceration). It also fails to count services that enhance social well-being (for example, parents caring for children), degradation of critical assets (forests, water, air, and the like) and intangible factors, such as happiness (the ultimate goal of many people). It is no coincidence that Western economies are rapidly degrading environmental life support systems and making many people unhappy (as shown by growing obesity, anti-depressant drug use and other factors). What doesn’t get measured doesn’t get managed.

Dixon suggests Gross National Happiness as the measurement component of a plan to maximize social well-being. It would comprehensively look at all tangible and intangible aspects of society, including education, health care, housing, clothing, food and nutrition, shelter, environmental and habitat protection, parents spending time with and raising children, arts, business practices, infrastructure, legal and regulatory issues, reported levels of happiness, and so on. Once metrics and performance standards have been established, they can be assembled into a Gross National Happiness measure. Rather than rendering the state of society down to one number such as GNP, Gross National Happiness would
give a suite of performance indicators. The performance of society is highly complex and needs to be expressed on many dimensions. The real development of the economy can only be based on a total system perspective.

The Opinions section of the Yearbook focuses on the ecological sustainability of business. We asked a distinguished panel of academics and practitioners to answer the following questions: What are the features of ecologically sustainable business? What makes a sustainable business possible? Can a company alone achieve ecological sustainability? What are the main hindrances to companies becoming sustainable? What are the effects of economic globalization in this respect?

In his response, “Sustainable Business Requires a Social Support System,” American economist John Gowdy (Rensselaer University Institute) states that a sustainable business monitors and controls its production process from “cradle to cradle.” The environment should be the same at the beginning and the end. So a sustainable business means having ecologically sustainable production processes, recycling wastes from the production process, and minimizing the environmental impact of the final product. Sustainable businesses require a support system of pro-environmental and pro-social regulations. Achieving sustainability depends on the surrounding social and environmental regulations.

Gowdy stresses that in the US corporation laws and regulations pose a critical hindrance to sustainability. Corporations are defined as “legal persons” yet they are exempt from basic checks and balances controlling their behavior. He warns that it is important to realize that the market system is not a “natural” outcome of an “invisible hand” but is imposed by laws and regulations to protect the power structure and prevailing free market ideology.

In his response, “Sustainability and Business from an Indian Perspective,” Indian management scholar Ananda Das Gupta (Indian Institute of Plantation Management, Bangalore) stresses that the drive for increased productivity is an issue in which the logic of individual decisions has a perverse collective impact on society. Raising productivity is an economic imperative. A company must raise its productivity and reduce its labor costs to increase its profitability. The economic system ignores the poor. Because they are insignificant consumers, the poor are excluded or forgotten. Their starvation illustrates a basic failure in present mechanisms for redistributing wealth in society.

He notes that the economic system works at the wrong scales in time and space. The economic system is short term, while most environmental problems are long term, and occur on a large scale. Businesses only deal with small fragments of such problems. The result is a basic mismatch when it comes to dealing with such large-scale problems as carbon-dioxide accumulation, the ozone hole, persistent organic pollutants, soil and water management, and the like. The economic system fails to come to grips with
the essential issues because it tries to deal with them at the wrong scales in space and time.

Das Gupta believes that the root of the problem lies in the way in which economic institutions are structured. We need to explore how we can maintain the vitality of corporate structures within a framework built around ethical, moral and spiritual values that will help the system work for society as a whole.

In his response, “Corporate Sustainability: Impossible Alone, Participation Essential, Leadership Needed,” American economist Richard B. Norgaard (University of California at Berkeley) refers to The Millennium Ecosystem Assessment, a study of some seven hundred scientists from around the world and another seven hundred external reviewers, completed in 2005. The findings of the study are grim. Of the twenty-four types of ecosystem services examined, the ecosystems of fifteen are being degraded or used unsustainably. The degradation has resulted in lower flows of ecosystem services. Only four ecosystem service flows, three of which provide agriculture, have increased over the past fifty years, but these increases do not appear to be sustainable.

The assessment makes a strong case that we are rapidly diminishing the natural capital on which the future of humanity depends. But Norgaard hopes that corporations that begin to explore the transition to sustained ecosystem management will be in a position to help design and insist on effective institutions and develop the new technologies we need.

In her response, “The Principles of Responsibility,” British environmentalist Diana Schumacher stresses that the task is a worldwide change of culture by millions of businesses and the people who work in them. From being a society driven by ever-increasing “wants,” the change will have to be towards a culture of conservation and ever-increasing simplicity of lifestyle.

Diana Schumacher lists seven principles to which companies should adhere. The principle of efficiency ensures that the consumption of inputs is minimized per unit of output. The principle of human scale implies that a company must be of a size such that all of its employees can recognize and relate to each other both socially and professionally. The principle of autonomy dictates that a company’s authority structure is such that decision making is delegated to the lowest possible level. The principle of evaluation requires a full portfolio of available measures and standards and a system to monitor performance against set goals. The principle of complementary parts states that companies can only achieve ecological sustainability if they are fully in control of all the component parts required to complete a “whole work process.” The principle of integration demands a high degree of cooperation from all employees in a company. There needs to be a common strategy aimed at encouraging teamwork throughout the company. The principle of authority states that
because voluntary sustainability cannot be maintained indefinitely, all companies should be required by law to appoint a senior manager responsible for overseeing the discharge of the company’s environmental obligations.

In his response, “Social, Ecological, and Economic Sustainability – Risks, Challenges and Strategies,” Swedish ecologist Karl-Henrik Robert, the founder of Natural Step, states that sustainability puts the highest demands on strategic leadership today. The strategic dimension of the sustainability game is about investing in “flexible platforms”; i.e., investments that are economically feasible in the short term and can serve as strategic stepping-stones to a sustainable future. Each step needs to systematically become more and more compliant with basic sustainability principles. Companies investing in sustainable strategies can see a good return. They save by avoiding increasing costs for energy, tax, insurance, waste management and material resources and they earn money through product and service innovation, competitive advantage, customer and employee loyalty and increased shareholder value.

What is needed, observes Robert, is less about new technology than changing traditional thinking. Businesses today are often delaying solutions that are close at hand. But a growing number of companies are not only proactive but also strategic, showing that this works. The whole world can increase its life-quality within the constraints set by ecological sustainability, if we only de-couple real value from physical flows.

The Debate section of the Yearbook is about the paper “The Ethics Management Paradox” by Belgian philosopher Luk Bouckaert of Catholic University of Leuven. In his paper Bouckaert states that the EU document of CSR policies is written under the veil of a rational and technocratic conception of ethics. Also, he explains that this rational conception of CSR is unable to overcome through its own logic the problems of opportunism in business and politics.

Bouckaert argues that by reducing ethics to a functional and instrumental management concept we lose something vital. We are crowding out genuine moral feelings and genuine moral commitment, substituting them for rational and technocratic management tools. This substitution fails.

In his view the ethics management paradox is the following. By creating new regulations to temper opportunistic behavior in and among organizations, we might temper the symptoms but often reinforce the underlying roots of opportunism. We introduce economic incentives like benefits, such as premiums or tax relief for those who respect the new regulations, but by doing this, we substitute moral feelings for economic calculations. Preaching moral concepts such as trust, responsibility or democracy on the basis of calculative self-interest or as conditions of systemic functionality opens the door for suspicion and distrust because
calculations and systemic conditions can easily be manipulated. When the fox preaches, guard your geese.

Bouckaert warns that the more economic democracy can be sustained by a rational and economic discourse, the more it risks crowding out the spiritual and moral commitment, which is a necessary condition for sustaining genuine entrepreneurship and stakeholding. Therefore we must put forward not only the question of how to make business ethics operational, but also the question of how to make it genuinely ethical.

In his reflection “Facing the Ethics Management Paradox,” Dutch business ethicist Henk van Luijk from Amsterdam states that the remedy Bouckaert proposes is dubious. It sounds like an all-too-purist view, as if moral motives are only of value as long as they are pure and uncontaminated. Pure motives are an exception. The normal state of affairs is a mix of motives, the moral value of which is determined by the extent to which some form of moral inspiration is clearly recognizable as part of the mixture.

Van Luijk argues that ethics in business is a too serious matter to make it depend on the morality and spirituality of individuals. It is not mainly on the personal level that we should expect a gain, but on the social and institutional level. Personal moral and spiritual excellence is something we can hope for, but we can hardly influence it. When it comes to active interventions in the domain of business, it is the conditions that we should tackle, the institutional configurations that define the behavioral alternatives. Only at that level can sustainable improvements be furthered.

In his reflection “Finding Space to Discuss Ethics,” American lawyer and business ethicist Ronald Bereinbeim (The Conference Board, New York) suggests that the sustainability concept is a good first step in alerting decision makers to the potential ethical considerations of a business choice. Most business ethics problems confront the practitioner with a choice of whether to exploit market failures such as monopolies or information asymmetries. An ethical decision in this context entails the exercise of moral restraint.

He warns that the ethicist accepts the possibility of a stark choice between business success and doing the right thing. What remains to be discussed is how to make that choice. At the outset, ethics problem solving demands rigorous insistence on factual accuracy. The reliability of data is not just critical in its own right. Decisions must often be based on limited information. It is all the more important that the facts used be true. Often the decision maker will need more information about the company to weigh and determine the data’s relevance and importance. Bereinbeim believes that commercial practice is a project of reason, not faith. “Spiritual and moral commitment” for business professionals is the outcome, not the departure point, of an ethical dilemma.
In his “Response to Bouckaert’s Ethics Management Paradox,” South-African business ethicist G.J. Rossouw (University of Pretoria) states that actions that are beneficial to one and that promote one’s own well-being are not excluded from the domain of ethical behavior. A moral motive, in the non-self-interested and non-expedient sense that Bouckaert seems to endorse is not required for actions to be considered moral.

Rossouw asserts that although an overemphasis on self-interest as the basis for moral behavior is problematic, a lack of emphasis on self-interest in ethics is equally problematic. In his own definition of business ethics, which is developed around the “self,” the “good” and the “other,” the imperative of finding a proper balance between what is good for oneself and what is good for others is stressed. Ethical behavior is not non-self-interested or altruistic behavior. It is about not only considering what is good for oneself, but balancing that with what is good for others.

And he adds that a lack of recognition of the role that self-interest plays in business, and in business ethics, will result in imposing unrealistic moral demands on business. It will treat business as pseudo-public institution, which is supposed to serve the public interest, while neglecting its obligation to create value for shareowners and employees and to insure its own sustainability.

In his response “The Paradox of Business,” American philosopher Robert Allinson (Soka University of America & Chinese University of Hong Kong) states that the problem presented in Bouckaert’s paper is due to a more general cause, which is the conception of business based on calculative self-interest. In his view the problem is not so much an “ethics management paradox” as a “business paradox.” He thinks that the business paradox is the understanding of business as a wealth-producing enterprise for owners that simultaneously creates value for stakeholders.

For Allinson the solution is to develop a new definition of business that focuses on creating social value as the motivation and mainstay of business enterprise. Profit must be perceived as a side effect, not as the main goal of business enterprise. We need a cooperative model. If when setting up a business one considers what social value one can create, an ethical motivation will be built into the business from the outset. It is possible that such motivations will produce profits for their owners. There is no built-in contradiction between creating social value and creating profit. As long as creating social value is the motivation for business, the business paradox can be resolved.

In his reply, “When More Ethics Create Less Ethics – Some Further Clarifications on the Ethics Management Paradox,” Luk Bouckaert does not accept that the problem behind the ethics management paradox is the conflict between self-interested versus ethical/altruistic behavior. He argues that although instrumental reasoning often refers to self-
interested goals and ethical motivation as caring for the other, this is not the core meaning of the ethics management paradox. The relevant distinction is the one between *intrinsic* versus *instrumental motivations*. The ethical assumption behind the paradox is that genuine ethical behavior must have its origin in an inner-directed, non-instrumental inspiration and orientation (be it an altruistic or self-oriented one).

Bouckaert adds that the paradox does not imply that ethical behavior must be purely inner directed. That would be an unrealistic and unproductive assumption. The claim is more restrictive: genuine ethical behavior gives intrinsic motivation *priority* over instrumental motivation. A consequence is the need for a more spiritual approach to business ethics. A *spiritual approach* to business ethics has two objectives: to sustain consistent and inspiring moral commitment in business practice and to radicalize the basic concepts of business life.

Bouckaert favors *stakeholder democracy*, which means to organize human cooperation to create value for all the stakeholders and with all the stakeholders. The final aim is not an external goal but an internalized goal that is defined by all stakeholders and to the benefit of all stakeholders. Radicalizing stakeholder theory into economic democracy is an example of showing how a spiritual approach to business ethics can have far-reaching consequences.

It is our hope that the papers presented in the *Interdisciplinary Yearbook of Business Ethics*, 2006 will provide good food for thought and inspiration for action for those who are engaged in the never ending “business” of ethics.

Laszlo Zsolnai
Editor-in-Chief
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Budapest, December 2005

Laszlo Zsolnai