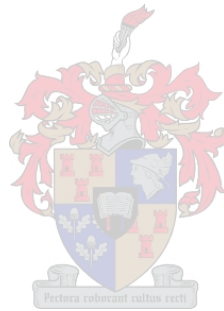


# The Limits of Virtue Theory in Business Ethics

By

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### **Abstract**

The overall aim of this study is to establish the implications, effectiveness and limitations of making Aristotelian virtue theory a meta-theory of business. The study intends to test what the business world would be like with the virtue framework as its meta-theory, i.e. if virtue theory provided the fundamental principles that underlie the formation and operation of business enterprises, thus making virtue the philosophy of business. Since virtue is concerned with moral character rather than moral principles – it is community-based rather than individualistic – the application of the virtue framework to business implies that we will have to deal with the reality that individualistic capitalism is corrosive to virtue. The virtue framework is only compatible with collective forms of capitalism, not individualistic forms. Thus, in order to nurture virtues, it is necessary to build an economic system, a type of capitalism that is compatible with the virtue framework. Such a project is morally plausible because it is congruent with human nature, which is rational and social.

### **Opsomming**

Die algehele doel van hierdie studie is om die implikasies, effektiwiteit en beperkings van die toepassing van die Aristoteliaanse teorie van deug as metateorie vir besigheid vas te stel. Die studie beoog om te toets hoe die besigheidswêreld sou lyk met deugdeteorie as metateorie, dit wil sê as deugdeteorie die fundamentele beginsels wat die formasie en bedryf van besigheidsondernemings onderlê voorsien en dus deug die filosofie van bedryf maak. Deugde is bemoei met morele karakter eerder as morele beginsels omdat dit gemeenskapsgegrond eerder as individualisties is. Die toepassing van 'n deugde-raamwerk op die sakewêreld impliseer dus dat ons moet afreken met die realiteit dat individualistiese kapitalisme korrosief is vir deugde. Die deugde-raamwerk is slegs verenigbaar met kollektiewe vorme van kapitalisme, eerder as individualistiese vorme. Om die deugde te koester is dit dus nodig om 'n ekonomiese sisteem te bou in die vorm van 'n kapitalistiese stelsel wat verenigbaar is met die raamwerk. Só 'n projek is moreel aanneemlik omdat dit ooreenstem met die menslike natuur, wat rasioneel en sosiaal is.

## Dedication

To Sunga, Mwendwe, and Ulemu

## **ACKNOWLEDGEMENTS**

A work of this nature is never a solitary exercise. I owe special debt of gratitude to the members of staff in the Philosophy Department at Stellenbosch University, notably Dr Minka Woermann who supervised this study.

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## Chapter 1: Introduction

### 1.1 Setting the context

Attempts have been made to apply normative theories to business ethics. For instance, in his work entitled *A Kantian approach to business ethics*, Bowie (1999) demonstrates how we can approach business ethics from a Kantian perspective; in their article “Utilitarianism and business ethics”, Snoeyenbos and Hummer (2003), enumerate the advantages and also discuss the problems of employing utilitarianism as an ethical theory in a business context; furthermore, Solomon (1991), in his article “Business ethics and virtue” and other works (1992-3), demonstrates the importance of virtues in business practice. These authors are preoccupied with showing the relevance of these normative theories to business practice. However, the central interest of this study is to examine the plausibility of making the Aristotelian virtue framework the meta-theory of business; i.e. making virtue a philosophy of business. The aim of the study is thus to establish the scope and limits of virtue theory’s applicability in business ethics.

This thesis looks into the field of business ethics. Business ethics is a sub-discipline of applied ethics and is concerned with moral issues in business practice (Childress 1986). In seeking solutions to moral problems in business practice, business ethics, since it is an applied field, draws on many disciplines, some of whose methods are normative and modelled on diverse ethical/moral theories (Beauchamp 2003:3). As a result, business ethics includes a wide range of competing normative approaches.

Having started between the 1970s and 1980s prompted by a series of corporate scandals involving bribery by American firms abroad, business ethics is a relatively young discipline in applied ethics (De George 2012). As a young discipline, business ethics does not yet have tools and principles that are specifically designed for it. It draws its working tools, such as the case study method, institutional analysis and the code of law, from other disciplines, including normative ethics. However, the most prominent normative approaches to business ethics are modelled on Kantian ethics, Utilitarianism and Aristotelian virtue ethics. This study contributes to efforts in the field of business ethics to seek a meta-theory or philosophy of business on which we can build solid business ethics.

Both Kantian and utilitarian ethics are action-focused. Kantian ethics argues that a right moral action is one performed out of duty, while utilitarian ethics holds that an action is morally right only if it produces the greatest happiness or benefit for the greatest number of people (Rachels 2007: 97). This implies that “when we act out of feelings, inclinations, or self-interest, our actions although they may be otherwise identified with ones that spring from the sense of duty have no fine moral worth” (Shaw 2008:57).

Since the Enlightenment period, Kantian and utilitarian ethics have become more popular than the Aristotelian virtue theory. However, Kantian and Utilitarian ethics have been criticised for placing too much emphasis on reason as the sole basis of morality. For instance, in her paper entitled “Modern Moral Philosophy”, Anscombe (1958) argues that Kantian deontology and utilitarianism have weak psychology. The Kantian assumption is that moral rules and principles or moral values are universal, which means that there is only one way to resolve moral problems. This implies that context and personal interests should not be taken into consideration when making moral decisions or judgements.

Furthermore, Anscombe disputes the claim that morality involves following principles and rules that are universally applicable to any moral situation. She argues that this would give birth to a rigid morality that is meaningless and out of place in a secular modern society as this type of morality assumes the existence of a law-giver who has no place in a secular society.

Having pointed out these weaknesses, Anscombe suggests a return to the Aristotelian way of doing ethics, which uses concepts such as character, virtue and flourishing and also emphasises the importance of emotions, family and friendship (Anscombe 1958).

Some philosophers have responded to this by focusing on how virtue ethics differs from and avoids weaknesses in Kantian and Utilitarian ethics. For instance, Williams (1981:39) points out that, by claiming that morally right actions are motivated by duty and not feelings, desires, piety or luck, Kantian ethics assumes that human beings are always in control of their situations and context. And yet, this is not always the case. Morality is also a matter of luck rather than a result of fixed rules and duties because human beings are not always in control of everything in their life.

In his book *After Virtue*, MacIntyre (2007:32) points out that, the Enlightenment project was based on the importance of reason in human nature. It attempted to understand the natural

world and humankind on the basis of reason alone. For example, Kant (1724-1804) claims that reason instead of emotions, habits and self-interest is the only valid source of moral judgement, implying that human beings can be moral through reason alone. He assumes that being rational is all that is required to be moral. He also assumes that morality does not necessarily require a social context and social content. This of course has many implications. Firstly, it implies that morality requires training/education/knowledge. Secondly, it implies that the purpose of education is to equip the individual with reasoning skills rather than to form his or her character. Thirdly, it implies that morality too has become a matter of reason, which means that morality can find no basis in our desires, religious beliefs, God's commandments or love. In this way, the Enlightenment project undermined the role of beliefs, customs, habits, emotions and religions.

Furthermore, MacIntyre points out that Enlightenment ethics has a very damaging sociological effect and it is therefore responsible for the moral mess in which the world finds itself. While Enlightenment ethics puts great emphasis on the use of reason, MacIntyre observes that there were disagreements among the Enlightenment philosophers as regards the role of reason in morality. While Kierkegaard emphasises the importance of choice, Hume's theory is rooted in passion and Kant's in reason. This implies that the Enlightenment morality lacks a shared public rationale. Such disagreements among the prominent Enlightenment philosophers are indicative of the problems faced by the Enlightenment project of attempting to find a rational justification for morality. As a result, it ended up producing many incompatible moral theories.

Hence, MacIntyre concludes that the Enlightenment project to provide a rational vindication of morality had decisively failed. This, according to MacIntyre (2007:50), had serious implications for the role of philosophy and religions in human societies. Philosophy lost its central role in culture and became marginal and was only given attention as an academic subject. Moral philosophers found themselves marginalised and isolated from the public. Religion was displaced by secular rationality, thus losing its role of providing a shared background and foundation for moral discourse and actions.

According to MacIntyre, morality is not just about following rules. One of the goals of morality is to assist individuals in realising their capacities and to put them on the path to becoming good people. The Enlightenment project, which aimed to justify morality through reason, failed because it rejected the Aristotelian teleological view of human nature. A

teleological view of human nature presents man as having an essence that defines his or her true end. Such ethics, according to MacIntyre, does not assist human beings in realising their essence.

Therefore, Solomon (1992) argues that, when applied to business, these theories do not help the corporate world as they do not provide balanced business ethics. Despite their dominance, these theories have not succeeded in stopping corporate scandals that have become rampant in the corporate world. They are incomplete, oblivious to the concrete business context and indifferent to the very particular role that people play in business. Their inaccessibility and inapplicability to a manager in the office or to the supervisor on the shop floor is not just a pragmatic problem but, in essence, also signifies the theory's failure. Solomon states: "At any rate, that is what I would like to argue here. Business ethicists (like country folk singers) have been looking for a theory in the wrong place and consequently, they have been finding and developing the wrong theories". (1992:319).

Furthermore, Solomon argues that the virtue framework offers a better, more solid and balanced and firm foundation for developing a business ethics than Kantian and utilitarian ethics. According to him, we should actually replace models of business ethics based on Kantian and utilitarian ethics with ones based on the Aristotelian virtue theory. This call assumes that the Aristotelian tradition is the correct one (Fuller 1998:14). Thus, the challenge of any business ethicist who is a proponent of virtue theory is to demonstrate that the Aristotelian tradition of moral inquiry is the correct one.

While many writers have already responded to MacIntyre's scathing critique of the Enlightenment project, one crucial admission of MacIntyre is that the Aristotelian virtue theory is not without fault and is in need of improvement. As Solomon also observes, "[b]usiness ethics is a child of ethics, and business ethics, like its parents, is vulnerable to the same threats and challenges visited on its elders" (Solomon 2003:43).

The following question subsequently arises: What are the implications of modelling a business ethics on the Aristotelian virtue framework, knowing very well that it is not without faults? One wonders if a virtue framework is comprehensive enough to solve all business moral problems.

Nonetheless, this dissertation focuses on the Aristotelian virtue theory. Its main objective is to fully investigate the merits of a virtue business philosophy, establish its limits and then

assess whether it provides a solid foundation for building a business ethics that will respond satisfactorily to the moral problems in business.

MacIntyre is Aristotelian, which means that he subscribes to the philosophy of Aristotle. However, he is not a blind follower of Aristotle's philosophical ideas. In fact, he is rather critical of some of Aristotle's assertions. His main motivation for studying Aristotle is to improve and develop the Aristotelian virtue theory by correcting its shortfalls. This implies that grounding this study only on the works of MacIntyre risks losing out on Aristotle's basic insights. The benefit of basing this study on the works of Aristotle is that we can also benefit from MacIntyre's criticism of Aristotle.

## **1.2 Aim of the Study**

The overall aim of this study is to establish the implications, effectiveness and limitations of making Aristotelian virtue theory a meta-theory of business. The study intends to test what the business world would be like with the virtue framework as its meta-theory; i.e. if virtue theory provided the fundamental principles that underlie the formation and operation of business enterprises, thus making virtue the philosophy of business (Albuquerque2010:60).

To achieve the above-mentioned aim, Chapter 2 exposes and discusses the principle elements of the Aristotelian virtue theory. This exercise is necessary because the application of virtue theory to business demands a thorough comprehension of the basic assumptions and implications of virtue ethics.

Chapter 3 examines the implications of applying virtue theory to business. One of the implications is that, since liberal individualism or individualistic capitalism is corrosive to virtue, it is necessary to build an economic system, for instance, a type of capitalism that is compatible with the virtue framework.

Chapter 4 discusses the advantages, disadvantages and limitations of a virtue-based capitalist economic system or business. It also examines how the basic features of capitalism, i.e. a profit motive, competition and private property, impact virtues and how virtues affect them in turn. This exercise is necessary because it enables us to gauge the limitations, benefits and weaknesses of the virtue framework. We discover that the virtue framework is compatible with collective rather than individualistic forms of capitalism.

Chapter 5, the conclusion, presents a summary of the implications, advantages and disadvantages of running capitalism based on a virtue value system. The final conclusion is that, virtue-based markets are not free markets that are self-regulated. Virtue-based economic systems must be regulated so that they serve their purpose, which is to provide goods and services to facilitate human flourishing.

## Chapter 2: The Principle Elements of Virtue Theory

### 2.1 Introduction

The purpose of this study is to establish the implications, limits, advantages and disadvantages of applying Aristotelian virtue ethics to business. Virtue ethics is concerned with what kind of person an individual should be. A moral theory belongs to the virtue tradition if it focuses on an individual's character. Evidently, Aristotle (384-322 B.C.E.) is the most prominent philosopher in virtue ethics. His ideas were expanded and applied to theological problems by Thomas Aquinas, a mediaeval virtue theorist (*Summa Theologiae*, 1, 94, 4). Alastair MacIntyre (2007), an Aristotelian virtue theorist, has further developed the contemporary debate on virtue. Using Aristotle's work as a foundation, this study intends to test what the business world would be like if the virtue framework was its meta-theory, i.e. if the fundamental principles that underlie the formation and operation of business enterprises were based on virtue theory. To fully appreciate the implications of applying virtue ethics to business, it is necessary to have a good comprehension of virtue theory's fundamental constituents. Therefore, this chapter exposes and discusses the basic elements of virtue theory. The exposition focuses on the following areas: Section 2 exposes Aristotle's<sup>1</sup> notion of Eudemonia or the goal of human life; Section 3 looks at the types of virtues; and Section 4 examines Aristotle's assertion that human life has only one ultimate goal.

### 2.2 Eudemonia

In his book *Nicomachean Ethics* (hereafter, NE.), Aristotle claims that human life is purposive. He draws insights from nature. He observes that everything in nature has a specific function; even feet and hands have different functions. From this observation, he presumes that, similarly, human life too must have a function, a purpose, a goal (NE.

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<sup>1</sup> Aristotle is a prominent virtue theorist and this study primarily draws on his book "Ethics" translated by Prof J.A. Thomson, published by Penguin Classics 1976.

1097b22-1098a8). According to Aristotle, the purpose<sup>2</sup> or goal of human life is eudemonia/flourishing<sup>3</sup>/happiness/well-being.

Ross (1977:190) points out that eudemonia, in ordinary Greek, means “good fortune”. He argues that Thomson’s (1976) translation of eudemonia as “happiness” does not capture the full meaning of the word because happiness is unstable as it is associated with a state of pleasurable feelings. He suggests that “well-being” is a better translation of eudemonia. While well-being implies happiness, happiness does not imply well-being because even individuals who are not flourishing have moments of happiness, but do not necessarily experience prolonged bliss (Norman 1998: 29). Human flourishing consists in having good health, being free from poverty and having prospects of achieving full human maturity. Moreover, an individual who is flourishing must find his or her life pleasurable. This paper uses the terms flourishing and well-being interchangeably.

According to Aristotle, human flourishing consists in “living well and doing well” (NE.1098a16-28). He argues that living well involves exercising virtues and doing well involves performing whatever one does based on true knowledge. Understood in this way, a person who is living well and doing well must be both virtuous and knowledgeable. Such an individual must have both intellectual as well as moral excellences/virtues. Moral virtues enable such a person to live well by him or herself and with other people, while the intellectual virtues will enable a person to know when and what actions to perform. Thus, such a person must have specific attributes that are congruent with such an understanding of human nature.

Aristotle asserts that a flourishing life is one of virtuous activity and is in accordance with reason (NE. 1097b22-1098a20). He holds that human beings are rational animals because rationality distinguishes humans from other animals. Human flourishing is therefore a rational activity because reason is the paramount element or trait in human beings. Full human flourishing thus requires exercising rational capacities. While human beings are

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<sup>2</sup> The idea that things have a purpose is articulated in his theory of causation. With this theory, Aristotle attempts to explain the being of things as due to material, formal, efficient and final causes. The material cause involves what a thing is made of, the formal cause involves its structure/shape and pattern, the efficient cause is the agent that brought it into being and the final cause is the purpose of its existence (Ross1977:71; Vela 2008:76).

<sup>3</sup> Aristotle is not the only ethicist who has linked virtue with human flourishing. The Stoics’ moral theory also links virtue with well-being. The difference between Aristotle and the Stoics is that, while Aristotle admits that external goods are important for human flourishing, the Stoics deny that they are necessary for human flourishing. For the Stoics, virtue is not only necessary but sufficient for human flourishing.



indeed rational animals, Aristotle does not imply that rationality is normative or that we humans ought to live in accordance with our nature. However, we incur a cost if we decide to go against nature because we can only flourish if we fulfil and realise our natural potential (Trig1999:33).

Furthermore, Aristotle insists that human flourishing is an activity of the soul and is in accordance with virtue or, if there is more than one kind of virtue, in accordance with the best and most perfect kind. This activity covers a whole lifetime and consists in the perfect habitual practice of virtue: “One swallow does not make a summer; neither does one day. Similarly, can neither one day, nor a brief space of time, make a man blessed and happy” (NE. 1098a22-27; Eudemian Ethics 1219a38-39; Aristotle Politics 132a37-38).

Additionally, Aristotle argues that, while everything in life has a goal or purpose, some things serve other ends while others are ends in themselves (NE.1098a22-27). This means that certain things have instrumental value while others have intrinsic value. According to Aristotle, human flourishing is the ultimate goal of human life. It is not a means but an end in itself. It is a chief and final good desirable for its own sake and not for the sake of something else (NE.1097a33-35).

Of course, this has implications for the value of a wide range of human activities. Understood in this way, human flourishing cannot consist in a life purely dedicated to either the pursuit of pleasure or wealth, since pleasure and wealth are not self-sufficient. According to Aristotle, wealth (i.e. funds) has no intrinsic value because it serves only as a means to achieve human well-being (NE.1096a5-12). In the same manner, pleasure is not self-sufficient because it is dependent on other things. Thus, a business activity would not qualify as a goal of human life either because business is also instrumental; one does business in order to make money and to provide services and products.

The claim that flourishing is self-sufficient implies that human flourishing is not a good designed to secure other goods. However, by this, Aristotle does not necessary imply that, apart from human flourishing, there are no other goods that human beings can pursue for their own sake. People can pursue, for instance, intelligence, pleasure, happiness, education and virtue for their own sake or for that of others. Virtue, although it has intrinsic value, is also exercised for the benefit of other people. For instance, while charity is a virtue and a good in its own right, the virtue of charity is a good deed in its own right; exercising it also benefits

other people. In this way, the person who exercises virtue also contributes to the well-being of other people.

However, while Aristotle claims that virtue is crucial for human flourishing, this does not necessarily mean that virtue is sufficient for human flourishing. On this point, Aristotle quite explicitly states that:

A person is incapable of flourishing if he is absolutely ugly in appearance, or low born, or solitary and childless and perhaps still more so, if he has exceedingly bad children or friends, or has had good children or friends and has lost them by death (NE. 1099b3-6).

Additionally, although Aristotle emphasises the importance of rationality, he regards other aspects, such as friendship, wealth and power, as equally important in a flourishing life. In the Aristotelian virtue framework, one is unlikely to flourish if one lacks virtues and other goods, for instance, food, shelter and friends.

Briefly stated, according to Aristotle, human flourishing is, firstly, that which is good for human beings, the ultimate end, the purpose of human life, the most desirable of all things, the end to which our actions are directed and therefore something final and self-sufficient (NE.1097b21). It consists in the perfect practice of virtuous activities (Politics 1328a37-38). Secondly, it is an activity aimed at achieving a perfect life or, in other words, it is an activity to achieve a perfect life in accordance with perfect virtue (E.E.1219a38-39). Thirdly, it consists in the actualisation of human capacities. A person who is flourishing is also realising his or her potential. Fourthly, it is something final and self-sufficient. Fifthly, human flourishing is a speculative activity (N.E.1178b7-8) that is contemplative of life. According to Aristotle, contemplative life is the best form of life because it is pursued for its own sake. In Section 3.4, this study argues that the Aristotelian notion that human flourishing is monistic as it focuses on only one value, namely contemplation, is rather narrow and insufficient compared to other aspects of human nature.

### **2.3 Indicators of Human Flourishing**

The indicators of a flourishing life are that individuals do well in whatever they do, live well and exercise their virtues. Furthermore, such individuals are self-sufficient, independent and need less external help. The contrary is equally true for individuals who are not flourishing. Their work is of poor quality, they do not live well by themselves or with other people, and

they are dependent and need constant external assistance. This means that inactivity (passivity) does not contribute to human flourishing. On this point, Aristotle argues:

Just as at the Olympic Games it is not the best-looking or the strongest men present that are crowned with wreaths, but the competitors (because it is from them that the winners come), so it is those who act that rightly win the honours and rewards in life. (Aristotle 1099a2-5)

Another important indicator of persons who are on a path to flourishing is that they are active and participate in activities that lead to the realisation of their capacities. This implies that human flourishing is not an activity or state of being that you would employ other people to do for you. Furthermore, it also implies that “the good life is something that we make for ourselves; it is not something merely given to us through fortune, inheritance or luck” (Vella 2008: 130).

The good life that is achieved through human flourishing is within our power and not dependent on divine intervention, but requires self-determination and good judgement. This means that human flourishing is voluntary and purely a human affair. Nobody can force anyone else to flourish. You can give people an opportunity to take part in activities that are vital to human flourishing but the choice is theirs. As the saying goes, “You can lead a horse to water but you cannot make it drink”. Conversely, if the horse desires water but there is none, it cannot drink.<sup>4</sup>

Furthermore, putting eudemonia at the top of the hierarchy of goods, as Aristotle has proposed, implies that all other human activities must be subordinate to it.<sup>5</sup> Hence, according to the Aristotelian virtue framework, human activities, for example trade, education, sports and economics, are subordinate to flourishing (NE. 1097a15-b2-1098a27).<sup>6</sup> Thus, in the

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<sup>4</sup> Affirmative action in South Africa is a good example of how some people have been given opportunities while others have been denied opportunities to flourish. The affirmative action policy is intended to benefit the poor black South Africans only. It is premised on the assumption that all white people in South Africa are materially well off due to the apartheid policies that distributed goods in their favour. It discriminates against poor white South Africans. It assumes that all white South Africans have enough material resources necessary for human flourishing. Under such policies, the poor blacks have a chance to flourish while poor whites are denied an opportunity to flourish.

<sup>5</sup> Policies, businesses, systems and structures can be assessed as to their effectiveness in providing space and opportunity for people to realise their potential and achieve well-being. This would be an evaluative tool for business and other human activities to establish how much they help or hinder people’s well-being

<sup>6</sup> This has serious implications for business. The implication would be that businesses driven by virtue would have multiple goals but that all of them would be subordinate to human flourishing.

virtue framework, business interests must be congruent with the goal of human life. In this way, business activities should support rather than undermine human life.

According to Aristotle, human flourishing requires a moderate amount of external goods (Aristotle 1099a31-1099b7; Ross 1977: 192). We need to pay fees to go to school to obtain an education and we need to pay hospital bills if we are admitted. This implies that those who lack a moderate (or basic)<sup>7</sup> amount of external goods due to misfortune cannot flourish. Thus, it is clear that individuals living below the poverty line due to misfortune or because they were born in a poor area, for example in the Cape Flats or Khayelitsha, would have a challenging time to achieve human flourishing.<sup>8</sup> A man who is bedridden will not flourish because suffering and infirmity will hinder him from actions that are necessary for human flourishing (Aristotle 1099a5; Vela 2008: 130).

Briefly stated, according to Aristotle, human flourishing is a rational activity that requires or involves the exercise of virtues, community, and moderate material goods. Aristotle has put emphasis on the importance of virtue in human flourishing. It is therefore necessary to examine Aristotle's views on virtue.

## **2.4 The Nature of Virtue**

This section examines the Aristotelian assertion that "virtue" is actually a character trait, disposition or habit cultivated through practice. Once this trait is cultivated, it is manifested in an individual's habitual actions (Rachels 2007: 175).

According to Aristotle, there are two types of virtuous or human traits: moral and intellectual.<sup>9</sup> Moral virtues are dispositions of character acquired through practice and habituation; while intellectual virtues are capacities/excellences of intellect acquired through learning and experience (N.E.1103a3).<sup>10</sup>

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<sup>7</sup> The Aristotelian insight that human beings need a moderate amount of external goods in order to flourish has been applied in psychology, development studies and economics, with Abraham Maslow's (1954) hierarchy of needs theory being the most prominent (Maslow, Abraham. 1954, *Motivation and personality*, Harper and Row: New York).

<sup>8</sup> Business therefore provides opportunities and resources for people to flourish. We need business to provide services and goods that people need in their activities of flourishing.

<sup>10</sup> By this, Aristotle assumes that human beings who cultivate virtue have capacities or natural aptitude to acquire virtues (Ross 1977: 176; Jacobs 2004:66).

### 2.4.1 Intellectual virtues

Intellectual virtues are quite central in the Aristotelian virtue framework because they are excellences concerned with the well-functioning of both the rational as well as the irrational elements of the human soul (NE. 1102a26). To understand the nature of intellectual virtues and how they operate, we also need to understand Aristotle's definition of human nature.

Aristotle holds that human beings are rational animals and that reason distinguishes us from other animals (Trigg 1999: 25).<sup>11</sup> Rationality is a function of the soul. The human soul consists of rational and irrational elements. Since, a human being is a rational animal; rationality should assume centre stage in human actions (MacIntyre 1998:62). However, Aristotle does not imply that our irrational elements for example: desires and emotions, should not influence, inform, and form our judgements and actions. If this were the case, we would not be fully human because being human requires having both rational and irrational capacities. The challenge, as Aristotle points out, is that the irrational capacities have the ability to comply with or defy the dictates of reason (N.E.1102b20-35). Hence, the best way to deal with irrational elements is to habituate them to obeying reason. However, in order to function well – i.e. to be able to do its job, which is to grasp things, deliberate on practical issues, as well as manage the irrational elements – the faculty of reason needs to have intellectual virtues.

Aristotle asserts that people acquire intellectual virtues through teaching, training and experience. This implies that virtues are not present in us at birth or, put differently, virtue is not implanted in us by nature (N.E.1103a19). While virtue is not natural to us, reason is. We are not born with virtues but we are born with the capacity to learn and acquire them. Additionally, if virtues were innate, our world would be crime-free, with no wars, no violence and no need for prisons.<sup>12</sup> Conversely, if vices were innate in human nature, societies would have no basis for condemning corruption, child abuse and broken promises, because

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<sup>11</sup> However, he also believed that, naturally, slaves and animals had no power of free, rational choice. Consequently, slaves and animals were naturally incapable of forming a state (Aristotle Politics 1252b; Trigg 199:26).

<sup>12</sup> Firstly, reformatory institutions, such as prisons and rehabilitation centres are founded on the assumption that people are responsible for their character and behaviour. Secondly, these institutions also subscribe to the Aristotelian claim that substances have the capacity to change their mode of being (metaphysics 1067a6-7-1069b16). Substances have the capacity to change place, appearance colour, and size and also cease to be. Likewise, individuals can change jobs, acquire new skills and knowledge, change character from being agents of vices to agents of virtues (NE. 1114a7).

individuals would not be responsible for their conduct. Society holds individuals responsible for their actions because it assumes that individuals are also responsible for their moral status.

Aristotle asserts that there are three intellectual virtues: theoretical wisdom, productive wisdom and practical wisdom. Theoretical wisdom (in Greek 'theoria') is concerned with theoretical matters like sciences, mathematics, philosophy, and empirical knowledge in general. It covers all disciplines and fields of study that can be learnt theoretically and through demonstration. On the other hand, productive wisdom or technical skill (in Greek 'techne') is the excellence or virtue concerned with the production of objects and artefacts, for instance, cars, bridges, aircraft and cooking. It covers all the skills required to bring things into being. Practical wisdom (in Greek 'phronesis') is concerned with human action or human conduct, which originates from our desires and emotions (N.E. 1140a24-b12; (N.E.1140a1-23; Vella 2008: 150).

Practical wisdom is very crucial in the virtue framework. The function of practical wisdom is deliberative and calculative. Its major role is to deliberate about what is good and beneficial for oneself and what is good in one's life. However, deliberation is only possible on matters that are practical and for which there are alternatives. Consequently, practical wisdom is concerned with human goods that can be deliberated upon. It deliberates on the appropriateness of desires and of the means to satisfy those desires by taking into account the nature of the desires, the context, time, and resources available (Norman 1998: 68).

For instance, taking all their responsibilities into account, people realise that they need money to pay their children's school fees and meet other urgent expenses, but that they do not have enough money in their bank account. In such a situation, a procurement officer of an organisation, for example, has two possible alternatives for raising funds: he or she may obtain money through kickbacks from the company's clients, or could take out a loan from a bank. If the procurement officer opts for kickbacks, he or she risks being exposed and finally being fired with prospects of imprisonment; however, if the procurement officer takes out a loan, he or she will have less money to spend in the coming few months as part of his or her monthly income will be committed to loan repayment.

In such a case, the role of practical wisdom is to deliberate on the appropriateness of one's desire as well as the means to satisfy the desire. Thus, in a temperate person, i.e. a person with self-control, the desires are supposed to obey the commands of reason. However, an intemperate person's desires will not abide by the commands of reason. Such a person will

therefore go ahead and act on his or her inappropriate desires and, in this case, opt for kickbacks.

In this way, practical wisdom is suitable for solving moral problems and assisting in the acquisition of moral virtues because it is through the exercise of practical reason that one strengthens one's habits. Thus, practical wisdom is the link between intellect/reason and emotions/desires.

Of course, practical wisdom is central to virtue theory. It advocates the idea that people don't or should not get around issues in life with preconceived moral solutions to moral problems. Furthermore, it assumes that human beings have the capacity to figure out the right moral solutions for themselves and for others by taking all the relevant factors into account. It also assumes that individuals have the capacity to think for themselves, which suggests that only those who can think for themselves can be virtuous.

To appreciate the role of practical reason in moral virtue, it is necessary to have a clear understanding of what constitutes moral virtue. This will be addressed in the section below.

#### **2.4.2 Moral virtue**

This section exposes and examines Aristotle's conception of moral virtue. In his work on moral virtue, Aristotle achieves two main objectives: Firstly, he refutes the Socratic claim that "virtue is knowledge", which implies that virtue can be taught (The Republic 351a&c, Laws 862ff, Protagoras 345). He argues that, while intellectual virtues constitute knowledge, moral virtue cannot be taught.

Socrates asserts that "if you know, you cannot err" (Republic 351). Responding to this claim, Aristotle argues that Socrates was partially right in the sense that theoretical knowledge of moral virtue is necessary because it informs and instructs us on what we need to do practically. However, having such knowledge does not make us morally virtuous. Completing a master's degree in ethics, for instance, does not necessarily make one morally upright. This is for the simple reason that passions can overcome knowledge. A person is not necessarily capable of performing courageous actions just because he or she knows what constitutes courage. In this sense, Socrates was mistaken. On this point, Aristotle remarks:

But we must go a little further than this, because virtue is not merely a state in conformity with the right principle<sup>13</sup>, but one that implies the right principle; and the right principle in moral conduct is prudence (NE. 1144b10-33).

However, according to Aristotle, Socrates was partially right in asserting that moral virtue implies practical wisdom, but he was wrong in thinking that moral virtues can be acquired in the same way that practical wisdom can be acquired. Although it is concerned with human conduct, the ordering of desires, passions and feelings, practical wisdom is an intellectual virtue; as such, it can only be acquired through instruction. This is not the case for moral virtue.

Moral virtue is concerned with the habituation of the irrational elements in human nature. Moral virtue is a habit, or disposition of character cultivated through practice. According to Aristotle, human actions are purposive and originate from desire. Mere reason without desire does not have the power to generate action (NE. 1139a35-36). Desire is the seed of human action. Thus, without desire, human beings cannot go about seeking understanding and working to attain moral goodness. Because desire is the seed of human action, it is important that desire is educated or habituated to obey reason.

Additionally, Aristotle argues that moral virtue is voluntary, i.e. that it involves choice. Thus, if the choice has to be good, the reasoning must be true and the desire too must be right. Since many desires are against reason, an object is desirable in the right way because reason asserts it to be so (NE. 1139a16-b2). Thus, one of the functions of practical wisdom, *inter alia*, is to seek and attain truths that correspond to the right desires.

As regards desire, practical wisdom has two major functions. The first is to deliberate on the appropriateness of desires; the second is to seek the correct means to satisfy desire (N.E. 1145a5-8). For instance, if you are poor and you need money, practical wisdom will help you think through and find means of satisfying your needs. You can, for instance, beg, seek employment, steal, sell your property or resort to other alternatives to obtain money.

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<sup>13</sup> Here, Aristotle already indicates that virtue ethics is contextual. Virtue ethic is guided by a principle, but it is not driven by a universal principle or rule.



Additionally, by using its creative abilities, practical wisdom can formulate/generate an idea or a proposal that could be desirable.<sup>14</sup>

This of course has two implications: Firstly, it implies that, to understand people and their actions, we also need to know what motivates their actions. Secondly, since desires motivate human actions, actions can be considered expressive of human motives. Additionally, we can derive two basic insights from this discussion: The basic insight we can derive from Aristotle is that, to comprehend human actions, it is important to understand the motive of such actions. People act in pursuit of desires. The fundamental motives of human actions are desires. Behind each action, there is a desire. Desires are therefore indicative of the good and direct us towards the good. However, according to Aristotle, positive actions are only possible if desires obey the commands of reason.

The second insight derived from the above discussion concerns the origin of moral blunders. Whether the consequences of human actions are desirable or not depends on whether the desire is good (appropriate) or bad (inappropriate) and on whether appropriate or inappropriate means are chosen to fulfil an appropriate desire. Good moral action requires matching good desires with appropriate means. In this sense, virtuous action is rooted in good desire and satisfied by appropriate means. Moreover, through the doctrine of the mean, Aristotle provides a principle that can guide an individual in distinguishing between virtuous and vicious action.

#### **2.4.2.1 Virtue is a mean**

According to Aristotle, in performing moral actions, we should be guided by the doctrine of the mean because virtue is a mean between excess and deficiency (Aristotle 1106a20-1107a1). One of the functions of practical wisdom is to work out the mean. A mean lies between two extremes: one of excess and the other of deficiency. The mean does not function like a mathematical mean. It is relative to the needs and context of the moral agent. It is not a moral principle, which can be applied universally and be expected to yield the same results all the time and in all situations.

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<sup>14</sup> This brings light to business activities and implies that desire is at the centre of such activities. Thus, in order to understand what drives business, one needs to understand the desires of the shareholders and stockholders. If these are incompatible, there could be value incongruence. Furthermore, if the desires are not right, the moral action meant to satisfy such a desire would also not be right. Hence both virtuous and vicious actions can be explained by their respective mother desires.

For instance, courage is a mean between cowardice and rashness. It consists in having the right attitude or disposition towards things that should be genuinely feared and those that should be tackled. As Aristotle points out:

It is possible for example, to feel fear, confidence, desire, anger, pity, pleasure and pain generally too much or too little. Both of these are wrong. However, to have these feelings at the right time on the right grounds, towards the right people, for the right motive and in the right way is to feel them to an intermediate that is to the best degree, and this is the mark of virtue (NE. 1106b9-1106b18).

Understood in this way, a mean is a gauge for both emotions, feelings and actions for only these can be excessive or deficient. This indicates that moral blunders have two main sources: One can err through one's actions; or by having excessive emotions, i.e. by having too much or too little anger, love, fear, etc.

Evidently, the doctrine of the mean does not cover/guide use in all moral situations and Aristotle is aware of this shortfall. There are certain actions that are inherently evil. We cannot, for instance, gauge the mean of the moral wickedness of theft, fraud, murder, adultery, rape or child abuse in terms of excess or deficiency. Such actions, as Aristotle admits, are outright evil. Thus, the doctrine of the mean does not cover and help us in all moral situations. It has a limited application. As Barnes (1976:43) rightly suggests, the doctrine of the mean is not a moral principle but assumes the status of moral advice. In moral action, the mean advises us to avoid excess and deficiency by being moderate in our actions and feelings.

Briefly stated, moral virtue does not prescribe universal moral rules or principles. The community determines the moral virtues. Moral virtue is concerned with the character traits, habits and disposition of the individual moral agent in the community. In this way, virtue theory promotes a notion of being a good person, rather than constructing universal moral principles. Subsequently, virtue theory is agent-focused rather than action-focused. Moreover, the *modus operandi* in virtue theory does not consist in teaching people what moral rules and principles to follow but rather what character traits (habits and dispositions) they should cultivate. Aristotle argues the following:

But the virtues we do acquire by first exercising them, just as happens in the arts. Anything that we have to learn to do, we learn by the actual doing of it: people

become builders by building and instrumentalists by playing instruments. Similarly, we become just by performing just acts, temperate by performing temperate ones, brave by performing brave ones. (N.E.1103b1-2).

Thus practice is the only way in which individuals can cultivate moral virtues.

### 2.4.3 Virtue and practice

As implied by the above discussion, practice is an important aspect of moral virtue. Aristotle argues that we become what we practice. Our behaviour towards other people determines what type of persons we become. We become what we do and what we do determines what we become. For example, if we always face danger bravely and cautiously, we become courageous. In this way, individuals can cultivate temperance, justice, and honesty virtues, depending on how they react and choose to behave in various situations they face during their lives. This implies that our daily actions are not only manifest in our character but also determine it. Practice<sup>15</sup> is therefore a crucial aspect of virtue. Without getting involved in virtuous actions, we cannot become virtuous (N.E. 1103b25).

While practice is crucial in the acquisition of virtue, it is not unique to virtue. Both virtue and vice are character traits and both are acquired through practice. This means that the methods we use to acquire virtues are the same methods we would use to acquire vices and other traits. For instance, to become a smoker, one would start smoking cigarettes until it becomes a habit. In the same way, one learns to become a footballer by playing football, not by simply watching others play football. In a similar way, if you want to become rich, you also need to begin cultivating dispositions related to wealth creation.<sup>16</sup>

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<sup>15</sup> Practice is essential to virtue theory. In action-focused moral theories, for instance Kantian and Utilitarianism ethics, practice is not necessary because such moral theories are not concerned with the character of the moral agent. They are more concerned with the rightness of moral actions.

<sup>16</sup> This gives us an idea of how, for instance, poverty can be reduced or eliminated. It also explains the negative side of aid. Aid can create the habit of dependence, which is not a virtue. People who give aid are active because they have to work to accumulate resources before they can give them to other people. People who live on aid are not exercising their capacities to create wealth/resource/innovation/creativity. Thus, people who are flourishing are those who give aid to others rather than those who only receive it. How many people in the world have become rich because they are dependent on charity?

The assertion that virtue is acquired through practice of course has implications as regards the role of theory and moral philosophy in our society. This also raises the question of methods in moral education and the role of moral philosophers. At a theory level, the role of a moral philosopher is to investigate matters of moral goodness, and develop and compose moral theories, which is exactly what Aristotle did. However, according to Aristotle, theoretical knowledge does not make people moral. Thus, moral philosophy, apart from composing theories, should also figure out ways/methods of making people moral. Morality, being a practical affair, demands that philosophers not only develop moral theories but that they should also suggest appropriate methods for linking theory with praxis.

This implies that moral education should instruct us on how to do good, but also on how we can become good persons. Thus, having moral codes in the workplace is not adequate. As Aristotle suggests, we need to find a way of motivating people not only to take note of the codes but to live according to the codes. A moral theory should therefore be comprehensive and answer the following question: What is morality, how can we be moral and why should we be moral?

According to Aristotle (N.E. 1104a5-7), moral problems are different from scientific problems. Science demands precision as the solution has to be the right one. There is not a wide range of available alternative solutions in science. For instance, if we mix oxygen and hydrogen we get water. The results of the process of mixing oxygen with hydrogen are predictable and demonstrable. This is not the case in the field of ethics or virtue. There is no one predictable universal solution to moral problems. Thus, methods that may be appropriate in resolving scientific problems may not always be appropriate in matters related to moral goodness. Therefore, applying moral principles modelled on scientific principles would not deliver comprehensive solutions to moral problems.<sup>17</sup>

Here, Aristotle raises a very crucial issue regarding the difference between the methods that are applicable to ethics and those that are applicable to science. He argues that moral problems are complex and cannot be resolved through scientific methods alone. His observation is that both theoretical and productive science operates on principles and methods

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<sup>17</sup> IMF and World Bank programmes designed for developing countries operated on a universal principle, which assumes that one solution fits all. As a result, instead of solving world economic problems, these organisations have caused a lot of economic hardship to developing countries. For instance, IMF/World Bank Structural Adjustment Programmes (SAP) was implemented on the misleading assumption that one solution can resolve all developing countries' economic problems. Unfortunately, SAP simply aggravated the economic situation of the developing countries

that are reductive, clear, and exact. The expected results cannot be different. This is contrary to practical subjects, like ethics, in which matters are not considered right or wrong. Employing scientific methods to solve ethical problems will inevitably result in a value loss. The value loss will be due to scientific methods not being reductive and hence not being able to cover all the aspects and considerations necessary for a balanced ethical solution. Thus, phronesis/practical wisdom is better suited to deal with moral problems.

For instance, a universal moral principle would recommend promoting truth telling as a virtue in all moral situations and telling lies should generally be considered morally undesirable. Nevertheless, under certain conditions and in certain contexts, concealing the truth may be the right thing to do. This indicates that ethics that are based on universal principles promote an ethical worldview that is narrow and closed to other richer perspectives. As DesJardins points out:

Unlike technical or scientific problems, moral problems have no answers or solutions just waiting to be discovered (DesJardins 1995: 54).

A virtuous action takes many factors into consideration. It is dependent *inter alia* on the agent, situation, context, the interests of the beneficiary of the action and the resources available. Thus, what is considered moral in one situation may not be considered as such in another situation?

Certainly, cultivating virtues is not always easy. As Aristotle suggests, it is much easier to begin cultivating virtues at a young age than when you are an adult for it is much easier to straighten up a young tree than an old one. The cultivation of virtues requires a social environment where children have the right role models. Thus, the type of community in which you grow up could have an impact on the type of character and person you become. If a person grew up in the Cape Flats, for instance, it is very likely that his or her role models will be the undesirable elements of society, i.e. gang leaders, drug lords and armed robbers. By the time such persons reach the age of reason, they might realise that they were born on the wrong side of the city.

Thus, if South Africa is to develop into a peaceful, crime-free society in which there is no racial discrimination, we need to raise our children on values that promote racial tolerance. Additionally, if the poor countries of the world are to pull out of poverty, their youths should

also be raised on values that would foster a hard working spirit, entrepreneurship and frugality. In this way, Aristotle's philosophical ideas are quite relevant to the needs and aspirations of contemporary society.

#### **2.4.4 Virtue, community and friendship**

According to Aristotle, human beings are not only social and rational but also political animals. As a result, to flourish, people need friendship and companionship with others. Human beings need community. As Aristotle puts it:

He who is unable to live in society, or who has no need because he is sufficient for himself, must be either a beast or a god (Aristotle 1280b10).<sup>18</sup>

Thus, our relationship with other people is important for a good life. This also implies that emotions play a role in morality as it is necessary for human flourishing.<sup>19</sup> It is therefore important that we develop good relationships with the people around us. In the following excerpt, Aristotle underlines the importance of having friends:

How can we make prosperity secure without their aid; and how can we enjoy it without them to share it with? When young, we need their advice, when old their care; when we are in our prime they give us opportunity of noble actions and aid us in effective thought (Aristotle 1161b28, 1166b32; Ross 1977:231).

While community is a natural phenomenon and important for virtue and human flourishing, this, according to Aristotle, does not imply that the state is independent of human volition. To the contrary, the state is rooted in and founded, formed and maintained by human volition. This means that the state can be changed, altered and moulded according to human aspirations, needs and desires. The concept of human flourishing therefore raises issues of social justice for political, economic and social structures and systems in the state should be

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<sup>18</sup> In Aristotle's time, the views prevalent in Greece, propagated by sophists like Lyconphron and Thrasymachus, were that the law and state were not natural but products of convention, crafted to interfere with individuals' freedom. The cynics also held that a wise person is self-sufficient and, hence, has no need to be a citizen of a country but should be a citizen of the world. These views are contrary to those of Aristotle who holds that the state is a natural phenomenon.

<sup>19</sup> This is contrary to Kant who insists that we should rationally work out moral rules, that our feeling should have no role in moral matters.

designed to suit/facilitate human flourishing. This implies that, unless the state provides the right background, laws and policies, humans will never be able to flourish (Trig 1999:29).

To be able to exercise virtue and participate in activities that lead to human flourishing, we need the right community. This implies that, at times, the appropriate thing to do is to change communities and settle in a community that can provide you with an appropriate environment in which to flourish. It is not necessary to spend one's whole productive life in a community that suffocates one's potential. It may therefore be necessary to seek greener pastures, migrate abroad, change jobs, get divorced or change your game plan in order to flourish. With regard to this, we may draw a lesson from Aristotle's life. After the death of Alexander the Great in 323B.C, Aristotle left Athens to save his own life from the Athenians who had accused him of impiety. Aristotle escaped to the Island of Chalsis, pointing out that he did not wish Athens, which had executed Socrates, to "sin twice against philosophy" (Kenny 2000: 58).

Since community is important for virtue and human flourishing, the implication of being excluded from participation in certain activities that are equally crucial for both virtue and human flourishing can therefore be damaging to individuals. Aristotle's ethics and politics are not innocent as regards discrimination against other people. For example, women, slaves and foreigners are excluded from the polis (Aristotle Politics 1253b29-32). The exclusion is justified on the very wrong assumption that the nature of aristocratic born males is different and superior to that of foreigners, women and slaves. Today, we know that Aristotle was mistaken and that gender, race, skin colour, class, country of origin and religion do not determine human nature. Despite such differences, human nature is the same in all people. What may be different is the content of people's character, which is voluntary and based on choice.

#### **2.4.5 Virtue, knowledge and choice**

One important aspect of morality is that individuals should be held responsible for their conduct. This view assumes that moral agents are free agents. Aristotle asserts that moral virtue has two major characteristics: it is voluntary and based on choice. Thus, virtuous people must be knowledgeable, fully conscious and in control of their senses. They choose to act virtuously for no other reason than for virtue's sake. Moreover, virtuous people must do so from a virtuous disposition, i.e. in respect of feelings and emotions (N.E. 1105b2). The

agent has the free will and power to act or not to act. If an action is voluntary and a matter of choice, the moral agent is morally responsible for his or her own actions (NE.1112a22-24).

In the virtue framework, human actions are purposive and moral goodness is therefore the goal and aim of virtue. People perform moral actions because they intend to achieve two types of goods: to shape their own character and, to do good for other people. Virtue is voluntary or a matter of choice. In this way, involuntary actions are not virtuous because they lack the element of choice. We can act involuntarily when under compulsion, through ignorance or if we are under the influence of drugs. Involuntary acts have an external source. They do not originate from the agent. In the case of voluntary actions, the instruments that bring about the action are within the agent. This implies that it is within our power to decide whether to be virtuous or not.

Hence, the basic difference between a person of virtue and one without virtue is that the former acts from choice, while the latter acts solely from desire. This is for the simple reason that people who are not virtuous do not have the necessary capacity to deal with their irrational elements. Such people have no practical wisdom and, consequently, their desires are not enlightened ones. In such individuals, irrational elements are not habituated to operate under the command of reason. Therefore, they act from desire and not from choice. They are like beasts driven by desires; if they desire money, for instance, they can kill or harm other people to acquire money.<sup>20</sup>

This aspect of virtue seems quite relevant to business practice. Both vicious and virtuous persons can have certain desires and needs in common. For example, both of them have a need or desire for money. The difference between them is not at the level of desires but at the level of the means they will employ to satisfy their desires. Since the goal of virtue is to do good, which benefits both the agent and other people, a virtuous person will not resort to means that will harm the agent or other persons. In this sense, a virtuous person would not *inter alia* sell cocaine, pollute rivers, abuse children and commit fraud because such actions obviously harm other human beings. Thus, we can establish businesses that harm other

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<sup>20</sup> When one thinks of the crime rate in South Africa, where people are killed for a cell phone, a watch, a ring or a jacket, Aristotle has a point.



people but are beneficial to us. Alternatively, we can run businesses that benefit both clients and shareholders.<sup>21</sup>

Michael Slote (1992) accurately notices that moral virtues fall into two broad categories, namely self-regarding and other-regarding virtues:

Justice, kindness, probity, and generosity are chiefly admired for what they lead those who possess these traits to do in their relations with other people, but prudence, sagacity, circumspection, equanimity, and fortitude are esteemed primarily under their self-regarding aspect, and still other traits – notably self-control, courage and wisdom in practical affairs are in substantial measure admired both for what they do for their possessors and for what they lead their possessors to do with regard to others people (Slote1992:9).

This implies that a virtuous business will not only be self-interested, i.e. focus on the bottom line, but will also be other-regarding, i.e. take the well-being of its employees, environment, customers and community into moral consideration.

This section has exposed Aristotle's understanding of what constitutes virtue. Virtues, which are dispositions of character, can be classified into two types: intellectual and moral virtues. The former is acquired through training while the latter is acquired through practice. Virtue is voluntary, which implies that moral character is self-made but influenced by context. Furthermore, moral virtue is both self-regarding as well as other-regarding and requires community. One cannot exercise virtue outside of the community. Lastly and most importantly, virtue is necessary for human flourishing. The following section examines Aristotle's idea that contemplative life is the best form of human flourishing.

## **2.5 Critique of Eudemonia in Terms of Human Capacities**

This section offers a brief critique of Aristotle's argument that the best form of human flourishing is contemplation. In other words, an individual who has flourished has to spend his life in contemplation. This means that human life has only one goal i.e. it only has one value. And yet, human nature has many capacities. The implication of holding on to such a

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<sup>21</sup> The mining industry has done a lot of damage to the environment. Mining firms come into local communities, exploit minerals, and make money at the expense of the well-being of the locals and the environment.

monistic implies that the plurality of individuals' capacities and aspirations must be sacrificed in favour of contemplation. Aristotle's claim does not take into consideration that human beings are subjects of many capacities. And full human flourishing may require the actualisation of some, if not all, human capacities. Giving contemplation more attention by neglecting other capacities would lead to a very narrow myopic view of human nature. A community of such individuals would certainly be a boring impoverished community. The plurality of capacities prevalent in human nature is indicative of possible modes/forms of human flourishing.

Aristotle (Metaphysics 1050b11-12) rightly observes and asserts that human beings are subjects of potentialities/capacities. These potentialities account for whatever we can become, or achieve or fail to achieve in life (Metaphysics 1069b15-16). Thus, individuals can only flourish within the limits of their capacities. For instance, a person who has green fingers may only flourish in this regard by performing activities related to plants because that is what brings out the best in that person. For those who are good at contemplation, abstract thought would be their rightful form of flourishing. However, to elevate contemplation as the ultimate goal of human flourishing is to be blind to the diversity and plurality of possible modes of flourishing that are congruent with different human capacities.

The reality of human nature is that flourishing involves human capacities and individuals are subjects of many capacities. This indicates that there must be many forms or modes of human flourishing. Insisting that contemplation is the ultimate goal of human life implies that human flourishing can only be achieved by an exclusive club consisting of a few people with capacities for contemplation. Why should all our endeavours and capacities culminate in contemplation? There is absolutely no justification for sacrificing diversity apparent in human nature for the sake of harmony. While monism indeed achieves harmony by eliminating the possibility of conflicting values, conflict is also part of human nature. Human beings have many interests, which demand attention and resources.

Aristotle and other Greek philosophers, including the Enlightenment philosophers, were preoccupied with looking for one principle that could account for the being and nature of things. In his attempt to understand the meaning and goal of human life, Aristotle, like his predecessors (e.g., Thales and Anaximander) subsumed that human life has one value. In this way, he was completely unaware that, to understand human life, one single event cannot constitute and account for the unity of human life. The unity of human life is not an episode

but a story with a beginning, middle and end. We cannot fully understand the meaning of human life if we neglect its social and historical context, since a story gets its meaning from its context (MacIntyre 2007:205).

This does not mean that human beings cannot have a shared essence/purpose/goal in life. Being social animals, we as humans live our lives both individually and in our relationships with each other. Individual narratives involve other people's lives. Therefore, individuals who share a common social and historical context can also have a common goal (MacIntyre 2007:190). For instance, those with talent in medicine may attend medical school and eventually flourish as medical doctors. Those gifted at law may attend law school and realise their well-being as lawyers. In addition, those with a capacity for business may flourish as businesspersons.

Thus, Aristotle's claim that human flourishing only has one value does not make sense. The basic and most important insight we can draw from the idea of human flourishing, however, is that capacities/potentialities are the determining factors of human flourishing. Additionally, human flourishing is not just a goal to strive for; it also functions as a yardstick for measuring the consequences of human activities as regards human flourishing. A desirable activity would be one that facilitates human flourishing, and undesirable ones would be those that hinder or interfere with human flourishing. Thus, from the virtue framework, the measure of a good community, policy, educational institution or humanitarian intervention consist in to what extent it assists its members to actualise their capacities, allows its members to perform or participate in activities that will lead to flourishing, and hinders or prevents people from flourishing (Rasmussen and Uyl 2005). In this sense, human flourishing can inspire an evaluative tool.

## **2.6 Conclusion**

This chapter set out to expose fundamental elements that make up virtue theory. Firstly, virtue theory is rooted in the realisation that human beings are rational, social and political animals. Secondly, central to virtue theory is the notion that the goal of human life is to flourish, which is an activity of the soul in accordance with virtue. Thirdly, human beings are social; hence, virtue and flourishing are rational activities that cannot be achieved outside of the community. Fourthly, moral virtue is voluntary. It does not consist in following rules or laws. It is a disposition of character cultivated through practice and focuses on being good

rather than doing good. Thus, these elements have to be considered when applying any form of virtue theory. This will be the subject of the next chapter.

## Chapter 3: Virtue as a Meta-Theory of Business

### 3.1 Introduction

Chapter 2 presented the framework of virtue theory, drawing mainly on the works of Aristotle. This chapter discusses the implications of making virtue theory the meta-theory of business or, in other words, making virtue the philosophy of business.<sup>22</sup> In Albuquerque's words:

The philosophy of business is a theory that discusses the fundamental principles of the existence of business and its actions. What constitutes business? What is its nature? How does it operate? Under what rules does it operate? Who are the people involved in business? What is their role in such an activity? (Albuquerque2010:60).

Briefly stated, virtue theory is founded on the understanding that the goal of human life is flourishing, that morality is concerned with the cultivation of virtues/dispositions of character, and that both human flourishing and virtues can only be achieved in a community (Aristotle Politics 1253a25-35; Kenny 2006: 83).

To achieve its aim, this chapter proceeds in the following format: Section 3.2 discusses the implications of the assertion that the ultimate goal of human life is to flourish; Section 3.3 discusses the place of business in community; Section 3.4 focuses on business virtues; and Section 5 examines how the virtues can influence and also be influenced by the market.

### 3.2 Definition of the Term "Business"

This chapter makes extensive use of the term "business". Hence its meaning and use in this study should also be defined and clarified from the onset. In this study, business refers to activities in which people engage with the motive and desire to make money (Carroll

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<sup>22</sup> Friedman, Drucker and Freeman are some of the prominent academics working in the field of business philosophy. Friedman is a rightist, conservative purist who claims that business only has one motive, namely profit maximisation. Business ethics and corporate social responsibility are considered sources of corruption of the essence of business. On the other hand, Freeman and Drucker advocate a business world where moral values are at home; a business world in which business takes the interests of all stakeholders into consideration.

As this paper illustrates, Friedman and Freeman – although they advocate different philosophies of business, one without morals and the other with morals – have one thing in common: They both advocate a capitalism that is liberal and individualistic. While Friedman considers the business owners' interests paramount, Freeman regards all individual stakeholders' freedom and interests as the business's responsibility (Lutz 2009: 318). Therefore, capitalism built on virtue theory would be liberal and communitarian.

1996:5). Thus, a profit motive is the distinguishing characteristic of what we may consider business. This definition covers all private commercially oriented businesses, ranging in size from one-person proprietorships to corporate giants. Such an understanding of business obviously excludes a wide range of other activities in which human beings engage for motives other than profit.

For example, activities, such as running a church, a public school, a public hospital or a political party, involve the use of money; however, they are not commercial ventures. This does not necessarily imply that profit is the sole purpose of a business organisation. Nevertheless, an organisation, is not worth calling a business if profit ceases to be its *raison d'être*. In this sense, “businesses are organisations that respond to the market”, i.e. to the needs, desires and wants of customers (Jones2005: 11).

### **3.3 The Goal and Role of Business**

This section attempts to answer the question of what the goal of a business founded on the virtue framework would be. Before commencing the discussion, it is imperative that we contextualise our discussion by briefly exploring the dominant contemporary understanding of the nature and purpose of business.

The dominant contemporary views of the goal of business are best expressed in what has come to be known as the “Friedman versus Freeman” debate or the “stockholder/shareholder versus stakeholder” debate. The proponents of the stockholder theory hold that business has only one goal, which is to make money for the owners of the business (Friedman 1970), which implies that ethical and business concerns are separate. This is what has come to be known as the separation thesis (Sanberg 2008:213-232). In response, the shareholder theorists argue that the separation thesis is impossible and unjustified, because business has the responsibility to create value for all stakeholders (Freeman1994; 2004), implying that business and moral concerns are intertwined.

In his article “The social responsibility of business is to increase its profit” published in The New York Times Magazine, September 13, 1970, Milton Friedman defends the thesis that business has only one responsibility, which is to maximise its profits or to make money for its shareholders. Furthermore, in his book “Capitalism and Freedom”, Friedman argues that the idea that business, corporate officials and labour leaders have a social responsibility that goes

beyond serving the interest of their shareholders is absurd and out of place in a free market economy. He explains this as follows:

In such a society, there is one and only one social responsibility of business –to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engage in open and free competition, without deception and fraud. And in such a case, the social responsibility of managers is to make as much money for their stockholders as possible (Friedman 1972:133).

This claim presupposes that business cannot be driven by more than one value. This of course has two crucial implications. Firstly, it implies that profit maximisation is the sole guarding value of any business activity. Thus, profit alone influences and guides decisions, conduct, and choices in business. Secondly, if profit is the sole goal of a business, this implies that business actions are excluded from moral consideration (Sandberg 2008:214; Haris &Freeman 2008: 541). The outcome of actions in business is what matters.

The consequences of singling out profit as the only goal of business have serious implications for the plight of human beings and the environment. This generates a framework where people are nothing but mere means for profit maximisation. In such a framework, it is inconsequential if human beings are exploited at work. Even if the rivers and lakes are polluted as a result of a business chasing profits, the business does not take moral responsibility for this. Thus, Friedman’s thesis subscribes to the worldview or belief that “[t]he end justifies the means”.<sup>23</sup> And when the means are human beings, it raises issues of justice and human rights.

Furthermore, the assertion that business’s only goal is to profit assumes that the values that inform business and social values are not congruent. This form of reasoning separates business concerns from other human or social concerns. It assumes that a firm should have separate standards of ethical behaviour that differ from those of the community in which the business is operating as if it is possible to do business in a vacuum. It locates business outside

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<sup>23</sup> Friedman’s thesis is rooted in the assumption that ends matter more than means. This argument has shades of utilitarian influence. According to a utilitarian approach to business, the means used to carry out an action are not taken into moral consideration. Hence, Milton Friedman’s thesis and utilitarianism have one moral dislocation in common: When the means for profit maximisation are left out because there is no material for moral consideration, it raises issues of justice and human rights.

the realm of human interest and welfare or the common good as if the common good is not the business's concern.

Additionally, Friedman's thesis puts business before people as if business can have goals of its own outside of human communities (Morse 1999:47; Solomon 1992:327; Arjoon 2000:168). By insisting that the principle role of management is to make sure the business is profitable; Friedman's thesis gives managers and business a very limited role. It assumes that the managers are only responsible for and answerable to their employers. Although business provides services and products, creates jobs and provides individuals with opportunities to realise their potential, these business responsibilities are not important according to Friedman. The only way to measure the competency of a manager is to examine how much profit a firm has made at the end of the business year. This picture of the goal of business is contrary to what a virtue-based business would be.

According to the virtue framework, the ultimate goal of human life is to flourish. In order to do so, human beings need goods, i.e. shelter, food, and education (Aristotle 1252b12-14). Furthermore, human beings flourish by participating in activities that lead to the realisation of their capacities. In the virtue framework, business activities are human activities. In such a framework, business goals are also human goals and hence profit ceases to be the main and only goal of business. Moreover, in this framework, a business would have multiple roles of which profit-making would simply be one.

A business driven by virtue has more than one value and is multipurpose. In such a business, profits are instrumental but not the sole purpose of a business. Businesses provide services, produce goods necessary for human flourishing and provide opportunities for individuals to exercise virtues and realise their capacities. Profit is the reward for providing such excellent service and goods. As MacIntyre rightly observes, (MacIntyre 2007: 194), business institutions house practices. In such institutions, individuals exercise their potentials, attain excellences, realise their capacities and hence flourish

Furthermore, by subordinating economic value to human flourishing, the virtue framework assumes that human beings matter more than profit. More importantly, the virtue framework assumes that one of the major criteria for assessing whether business is progressing or not is the dignity of the human being. If profit is made at the expense of human dignity, the



business is not playing its rightful role in society.<sup>24</sup> Additionally, virtue theory contributes two things to the business world. Firstly, it gives businesses a human face and character (Arjoon 2000:168) and, secondly, the virtue framework offers/provides a new business criterion.

### 3.4 Business and Community

One of the crucial cornerstones of virtue theory is the conviction that human beings are naturally rational, social and political animals. As such, human beings can only flourish within a community. As Aristotle argues:

Indeed, though later than the family in time, the state is prior by nature to its organic whole like the human body is prior to its organic parts like hands and feet. Without law and justice (which can only be achieved in state), man is the most savage of animals. Someone who cannot live in a state is a beast; someone who has no need of a state must be a god. The foundation of the state was the greatest of benefactions because only within a state can human beings fulfil their potential (Politics 1.2.1253a25-35; Kenny 2006:83).

The assumption of virtue theory is that human enterprises, i.e. businesses, cannot operate in a vacuum. This has major implications for entrepreneurs as well as individuals who wish to join a company or seek employment. From the virtue framework, when an entrepreneur sets up a firm, he or she brings people together (as employees) under the firm which hence makes up a community of workers. Thus, in such a framework, a corporation or company is part of the community in which it operates. And since a firm brings individuals together, it is a community within a bigger community<sup>25</sup> (Solomon 1992:327).

Thus, there is a symbiotic relationship between the firm and community. For a business to flourish, the community should also provide an environment conducive for the business to grow. Understood in this way, both firms and communities have responsibilities towards each

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<sup>24</sup> A firm won a tender to construct open toilets in the informal settlements of Khayelitsha. Such a firm is obviously mainly interested in making profit even if the product shows no respect for human dignity. In such a firm, self-regarding considerations took precedence over other-regarding considerations. A virtuous firm would have turned down such a tender due to other-regarding considerations.

<sup>25</sup> A community, which is defined as a network of human relations, constitutes a “social capital” without which business is impossible (Quddus 2000). In his book “Bowling Alone”, Putnam (2000) argues that a lack of social capital is related to the American apathy for politics. Fukuyama (1995), in his book “Trust: The social Virtues and Creation of Prosperity”, argues that the success of a business is dependent on the type of community in which it is operating. High trust communities tend to support business better than low trust communities.

other. Of course, this has implication for those who wish to realise their capacities through employment. Since community is crucial for human flourishing, it is imperative for individuals who wish to flourish to join a good community, i.e. a community with all the necessary goods and opportunities for human flourishing. As Solomon comments:

Whether we do well, whether we like ourselves, whether we lead happy productive lives depends to a large extent on the companies we choose to work for. As the Greeks used to say, “to live the good life one must live in a great city”. To my business students today, who are too prone to choose a job on the basis of salary and start-up bonuses alone, I always say, “To live a decent life choose the right company” (Solomon 1992:327).

This argument is not only appropriate for students seeking employment; it is equally relevant to any individual planning to set up a business. If you want your business to succeed, set it up in an appropriate and conducive community. For instance, if you want to set up a butchery that sells pork, it would be suicidal to set it up in a community where the majority of the people are Seventh Day Adventists or Muslims, for neither group consumes pork.

The insight that a good community is essential for human flourishing explains and justifies the principle motive behind quite a wide variety of human conduct. For instance, it explains and justifies the necessity for human beings to migrate or emigrate, change jobs, seek greener pastures and enter into new relationships. From the virtue framework, human beings migrate or emigrate because they are seeking an environment/community<sup>26</sup> where they can achieve well-being.<sup>27</sup>

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<sup>26</sup> The wars in the Great Lakes Region (1990- to present), i.e. the Democratic Republic of Congo, Rwanda and Burundi, and the political instability in Zimbabwe and Somalia to mention but a few compel individuals to immigrate to South Africa in search of peace and better means of livelihood. This of course was marred by the xenophobia activities of 2008 and 2010. During these attacks, two Mozambicans were burnt to death. While many Malawians and Zimbabweans returned to their countries of origin because there was relative peace in these countries, Somalis were caught between two fires: running away from wars in their country of origin or facing rejection and violent xenophobia in a country where they are seeking refuge. The question of what such individuals’ prospects of attaining well-being are still remains to be answered.

<sup>27</sup> Since 1994, when the ANC implemented the affirmative action policy in South Africa, which reserves 80% of new jobs for black people (black, Chinese and coloured people), a large number of white people (about 800 000 to 1000 000) have left the country in search of greener pastures overseas (USA, UK, Canada, Australia, Europe and the neighbouring countries, i.e. Namibia and Mozambique). However, due to the economic downturn of 2008-2010, some are returning back to South Africa. The Irish too have a tradition of emigration. About 40 million people in the United States of America are of Irish descent.

This implies that businesses have two moral responsibilities: an internal and an external one. The first responsibility of a business is to produce goods that do not undermine human flourishing and put them on the market for the larger community.<sup>28</sup> Secondly, for the company to flourish, it requires the right staff and environment. Thus, the firm should be organised and run in such a way that it provides resources and opportunities for individuals to realise their capacities (MacIntyre 2007; Solomon 1992:32). Obviously, such a business would not be inspired by the neo-Hobbesian view “It is every man for himself” or the Darwinian view “It’s a jungle out there” (Solomon 1992: 320). In this way, the virtue framework explains the origin of human responsibility as well as the source or foundation of human identity. This is the subject matter of the next subsection.

### 3.5 Origin of Responsibility and Identities

Virtues are acquired through practice (NE. 1103a3; Rachels 2007:175), through which individuals form their characters and also flourish. In this way, individuals become what they do and, in turn, what they do determines who they become. Thus, what we do is the first source of our identity. However, to be able to exercise virtues, an individual should belong to a community. This implies that individuals are not only identified by what they do, but also by where they live or the community to which they belong. To put it in Solomon’s words, “persons are socially constituted and socially situated” (Solomon 1992:326).

The virtue framework explains how human beings can have multiple identities. The more things one does, the more identities one deserves. If you are involved in many activities and you are a member of several organisations, then you also acquire multiple identities. Thus, one person can be many things at once: an accountant, insurance broker, golfer, a singer, a member of a trade union and a member of a church, to mention but a few.

The virtue framework identifies work and community as sources of meaning of human life. Community gives individuals a sense of belonging and allows them to flourish through the various activities they perform or do, for example their work.<sup>29</sup> Thus work has important value to human beings because, apart from being a source of income and livelihood, it also

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<sup>28</sup> In 2005, the Chinese firm, Sanlu Group, produced and sold infant formula contaminated with melamine which caused the death of one baby and kidney problems in at least 80 more (The New York Times, 12/09/2008 [www.nytimes.com/2008/09/12/12iht-13milk](http://www.nytimes.com/2008/09/12/12iht-13milk)).

<sup>29</sup> Karl Marx asserts that work is very important for the realisation of human nature and individual potential, and is also a mode for self-expression (Velasquez 2000:164)

gives people a sense of who they are.<sup>30</sup> This has serious implications for the homeless and unemployed, namely that if you are both unemployed and homeless, then you have a narrow (if not impoverished) sense of who you are. In this way, virtue theory articulates the gravity of downsizing, retrenchments and mergers<sup>31</sup>. Employment gives individuals a sense of place, sense of importance, usefulness, uniqueness and individuality. Thus losing your job obviously leads to losing a sense of what you are, for example a lecturer, a driver for a company, etc. The loss and suffering caused by unemployment raises the moral imperative of the role of business in providing employment to individuals.

Briefly stated, the implication of applying virtue to business is that a firm rooted in virtue integrates business concerns into human concerns. In the virtue framework, businesses are positioned in a way that makes them part and parcel of human community. Being a member of a larger community implies that a firm has duties and responsibilities. Through their activities, businesses contribute to the common good by providing goods and opportunities for individuals to cultivate and practice virtues (Arjoon 2000:166). In this sense, virtue theory articulates the moral responsibility of business.

### **3.6 Corporate Social Responsibility**

As regards corporate social responsibility (CSR), Friedman (1970) argues that a chief executive officer (CEO) is only answerable to his or her shareholders. The CEO's principle responsibility as an employee is to make sure that the corporation is making a profit for the owners of the business. Furthermore, he argues: "A corporation is an artificial person and in this sense may have artificial responsibilities, but 'business' as a whole cannot be said to have responsibilities, even in this vague sense" (Friedman 1970).

This argument implies that, although a firm benefits from operating in a community, it has no moral obligation to the community. Such reasoning assumes that the business world is like the Hobbesian state of nature where every form of conduct is acceptable. Thus, businesses

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<sup>30</sup> That occupation is diagnostic of human identity, is not necessarily unique to the virtue framework. Even in our world of market capitalism, individuals are identified by their occupation, for instance as a farmer, carpenter, fisherman, philosopher, poet, politician, soldier, pimp or vendor. However, work is not the only source of human identity. Race, ethnicity, country of origin, religion, etc. are also sources of human identity (Smedley 1998. "Race" and the Construction of Human Identity, *American Anthropologist*, New series, vol.100.No 3(sep., 1998), pp.690-702, Blackwell Publishing, <http://www.jstor.org/stable/682047> Accessed: 18/04/2009 15:43, downloaded on 03/06/2011 Stellenbosch University Library).

can do whatever is necessary to make profits and survive. According to Arjoon, “[e]thics in that case then becomes abstractionist, and fosters the separation of ethics and business either as being an oxymoron or the idea that there is good business practice and there is ethics” (Arjoon 2008: 160).

In response, the advocates of the stakeholder theory argue that this is not a morally acceptable view of what the business world actually is or should be. After all, the business world is not a war zone in which only the fittest survive and the winner takes all. To the contrary, the business world is characterised by cooperation, where individuals work together to create value for both the owners of the businesses as well as for all the stakeholders (Freeman; Wicks; Parmer 2004:364). In this way, the stakeholder theory resonates very well with the assumptions and implications of a business infused with virtues.

As this study has demonstrated above, in the virtue framework, each member of a community has responsibilities and duties. A firm viewed as a community driven by virtue, like each person in a community, has a responsibility/moral obligation towards others. If an individual benefits from a community, it simply makes moral sense that he or she behaves in such way that others benefit too. However, since firms are not legally bound to offer help to the community, CSR becomes an act of virtue, a social and moral concern for the well-being of others (Solomon 1993:335; Arjoon 2000:172). In this way, the virtue framework justifies corporate social responsibility on two accounts: Firstly, CSR is a matter of justice when it gives society what it is due; secondly, CSR is an act of mercy when a corporation gives out resources to the needy in the community.

A business rooted in the virtue framework is aware that human beings are not solitary atoms wondering in the world. To flourish, human beings need each other. As such, those with resources have a responsibility to exercise the virtue of generosity by sharing their resources with the disadvantaged in the community. Through such benevolence, for instance helping orphanages or donating research funds to a university, a firm creates a bond with stakeholders and creates a network of human relationships, which Putnam (2000:19) calls “social capital”. By emphasising the benevolent responsiveness of a firm and creating a good human relationship with other stakeholders, virtue theory supplies ethical content for CSR (Weisband 2009:910).

The virtue framework does not grant the CEO unlimited scope in which to exercise CSR. As regards the exercise of the virtue of charity and generosity, for instance, the right individual

to exercise these virtues is the owner of the goods to be given to charity. Since the resources of a corporation belong to the owners of the business, only the owners of the business have a right to give part of their resources to charity if they so wish. Since virtue is a disposition of character, it would not be virtuous of an employee to give away resources that are not his or her personal property. The virtue of generosity does not compel us to give to charity what is not ours.

Imagine you are a child and your mother has sent you to a shop to buy her a packet of cigarettes. At the entrance to the shop is a beggar who is obviously in bad shape. Would it be prudent of you to give the money to the beggar instead of buying cigarettes for your mother? Imagine returning home to inform your mother that you have given her money to a beggar because you thought the beggar needed the money more than she needs cigarettes. As Ewin (1995) argues:

It is the fact that somebody is acting in a representative function when acting as a manager of a corporation, acting for shareholders, that makes such notions as generosity inapplicable (p840).

In similar manner, CSR can be an act of virtue if and only if the owners of the business have mandated the CEO to give away resources. In such a situation, it is not the CEO but the shareholders i.e. the owners of the resources – who are exercising the virtue of generosity and mercy.

In sum, a business that is based on the virtue framework values the importance of community and human relationships more than individualism. It recognises human relationships' crucial importance to the success of a business. A virtue-based business is rooted in the realisation that physical capital (e.g., money and property) is not enough for business. The success of a business depends on its social capital, i.e. its network of human relations. Since individuals exercise and acquire virtues through social intercourse, human relationships are sustained by virtues, and, in turn, the virtues are also sustained through human relationships. Moreover, trust is one of the key virtues that accounts for successful human relations as well as for economic success (Fukuyama 1995).

## 3.7 Business Virtues

### 3.7.1 Virtue and self-regulation

As discussed in Chapter 2, virtue is not about following rules but about cultivating virtuous dispositions and figuring out the right moral conduct. Practical wisdom is the master virtue that enables individuals to make the right moral judgements in each context. And since virtue is crucial for morality and human flourishing, the application of virtue theory to business has implications for decision-making processes in the workplace, moral regulation and the role of management.

Virtue, as a rational activity, implies that, when people come together in a firm (form a community), no one would be justified to have a monopoly on exercising rationality and discerning moral judgements. Thus, in the virtue framework, firms have to be run in such a way that employees have to be given opportunities to exercise their intelligence; otherwise, they will not flourish as human beings. This would mean that employees would have to participate in the firm's virtue-based decision-making processes. Additionally, in such a firm, individuals would be self-directed.<sup>32</sup> Armed with practical wisdom, individuals in the workplace would work with minimal supervision.

Additionally, if individuals in the workplace can consider and make moral decisions on their own, they do not need management to direct and control their behaviour. Thus, if the

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<sup>32</sup> Thus, the idea of a free market is not necessarily a 17<sup>th</sup> century concept. Although Plato and Aristotle harbour negative views about commerce, arguing that the market corrupts character and proposing that only non-citizens should do commerce, the philosophy of a free market has already been presumed in virtue theory. Aristotle's ancient Greek philosophy assumes that individuals must live in a society that grants and accords their freedom and other goods to enable them to participate in activities of their choice in order to flourish. In such a society, those with capacities in business can focus on business activities. Such individuals can flourish as businesspeople. Flourishing would involve individuals' voluntarily producing goods and services and exchanging them freely on the market. In such a market, people can acquire and own private property.

Additionally, the virtue framework provides a better understanding of the role of business in reducing and ending poverty in three ways: (1) the way societies are organised can hinder individuals from flourishing (i.e. structures that distribute goods in favour of one group by discriminating or exploiting or marginalising the other groups with regard to gender, race, etc.). For instance, virtue assumes that central planning is not good for human flourishing because it prevents individuals from voluntarily making choices on what activities to pursue in order to flourish. A centrally planned market would be very restrictive on individual creativity and innovation. Such a market lacks the necessary freedom for individuals to voluntarily choose what to produce and put on the market. Instead, a government would decide on what people should produce and how people should flourish. In such a market, there is no room for self-determination (personal initiative) and hence individuals are not self-made and self-driven. (2) In the virtue framework, being successful at flourishing is dependent on virtue and this implies that vices would impede flourishing. In other words, the character of the individual can determine or hinder human flourishing (e.g., if the individual is lazy, hooked on drugs, a cheater, dishonest, etc.). (3) Virtue theory provides methods for businesses to reduce as well as end poverty (e.g., through CSR, work as well as creating and accumulating wealth). Virtuous business is the only moral way to end poverty and the only moral way to create wealth (i.e. wealth cannot be achieved by means of plundering, war or fraud).

workplace has to have managers, such individuals must have more developed virtues so that they can act as role models for other employees (Arjoon 2000: 172). The implication of locating virtue at the core of business is that businesses founded on virtue would not need managers but leaders, i.e. individuals who lead other employees by example. This means that a virtue-based business requires leadership rather than management.

Management is about controlling resources and directing people according to established principles. In a firm founded on virtue, centralised methods of management become less necessary. And thus, such a firm does not need a larger number of middle managers and supervisors (Weisband 2009: 913). The contemporary virtue theorist MacIntyre (2007) argues that managers are manipulators since their major interest is efficiency and not human flourishing. The relationship between managers and workers in a firm is always legal and not moral (MacIntyre 2007: 66).

In the virtue framework, when appointing a new manager, character becomes the most important aspect of potential leaders. Apart from other professional qualifications, managers should thus be recruited based on their character. Consequently, we need to look into potential managers' background and things they have done in life, i.e. actions that could inform us about their character. Since, according to virtue theory, individuals become what they do, and what they do determines what they become, their past records would provide valuable insight into their character.<sup>33</sup>

Thus, the implication of applying virtue theory to business is that morality in the business world ceases to be about following rules but is rather about the cultivation of a virtuous character. Consequently, the character of the moral agent takes centre stage in a business ethics based on the virtue framework. This section therefore attempts to establish and examine the most desirable or appropriate character disposition that businessmen and women should cultivate.

### **3.7.2 Entrepreneurial virtues**

A businessperson should have many virtues in order to own and run a business. Among others, creativity, innovation, capacity to plan and organise, the ability to take calculated risks and having ample resources are some of the basic and obvious entrepreneurial virtues

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<sup>33</sup> The financial scandals at the energy corporation Enron and at the American accounting firm Arthur Anderson were not due to a lack of laws and rules but to problems of character.



(Solomon 1992:35). In order to make the right decisions, an entrepreneur must have the capacity to come up with ideas, imagine things and see opportunities for his or her business. Such a person must obviously be self-confident, trust in his or her abilities and have the courage to try out things that other people have never tried before. Such a character cannot be a conformist, i.e. someone who is scared of breaking new ground because tradition says no to such ventures.

As Solomon rightly asserts, entrepreneurs are restless, imaginative, non-conformists who are ready to take risks (Solomon1992:35; Kariv 2011:41). An entrepreneur must be creative and resourceful. The virtue of resourcefulness enables entrepreneurs to seek information and advice from those with appropriate experience. This also implies that entrepreneurs must be capable of building relations with other people, i.e. they must be able to build social capital and establish working relations with a network of people. In order to venture into business, an individual must have the virtue of hope and be positive about the future. Such hope can only be sustained if an individual is passionate, proactive, takes initiative, creates new opportunities and works diligently towards the intended goal.

It is undeniable that entrepreneurs play a very important role in our society. Through their activities, entrepreneurs produce new things; they establish institutions that become cultural institutions. In this way, entrepreneurs influence culture and introduce new values into society; hence, they influence the character formation of individuals. The influence of musicians, fashion designers and sports personalities, for example, is undeniable.

As Naughton and Cornwall (2009:8) argue:

Entrepreneurs are not only a powerful force in our economy, but also our culture because they create trends, break moulds, and cause significant changes within society. Unless these cultural institutions take on the responsibility to be schools of virtue, we see little chance for good entrepreneurs and good companies to mature in free market economies in numbers significant enough to truly influence society.

In this way, entrepreneurs are a double edged sword. They can be used as a force for good or evil. On the one hand, entrepreneurs created the computer industry, with which we cannot do without today; on the other hand, entrepreneurs are also responsible for the pornographic industry, violent video games, fraud of pension funds, investment scams, etc. However, this

does not necessarily mean that entrepreneurial virtues are inherently good or evil. As Naughton and Cornwall observe:

On their own, these entrepreneurial virtues do not have value. Their value depends on how entrepreneurs exercise them. They can be exercised in new ways to fight cancer, in creating pornographic films or producing insightful historical documentaries. Such virtues, by themselves, do not determine whether wealth creation is good or not or whether the entrepreneur is good or not (2009: 3).<sup>34</sup>

Thus, the moral implications of an entrepreneur's activities would manifest the moral values that constitute his or her moral campus. Consequently, the fruits of an entrepreneur's labour reveal his or her character and the moral principles he or she subscribes to. If a firm hires individuals based on their race or gender, such policies speak volumes about the character of the owners of such a business. A virtuous entrepreneur would pursue self-interest but also be mindful that, as a member of a community, it is his or her duty to contribute to the common good. On the contrary, a non-virtuous person, for instance someone who is greedy, would exercise creativity only for self-gain.

### **3.7.3 Moral and social virtues**

A virtue-based business would therefore require entrepreneurs to exercise their creativity and innovation in such a way that they do well but also remain good persons. This individual would use entrepreneurship as an opportunity to exercise moral virtues, thereby building his or her character in the process. To be able to do so, the entrepreneur would need to cultivate virtues. While Solomon points out that the list of moral virtues relevant to business would be very long, he mentions the following:

We have honesty, loyalty, sincerity, prudence, courage, justice, reliability, trustworthiness, benevolence, sensibility, helpfulness, cooperativeness, civility, decency, modesty, openness, cheerfulness amiability, tolerance, reasonableness, tactfulness, wittiness, gracefulness, liveliness, industriousness magnanimity,

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<sup>34</sup> Piracy is a form of entrepreneurship. Piracy in Somalia is growing very fast and risks disrupting international trade. The funds derived from piracy feed the civil war that has run down the whole country. Many ship owners have paid huge ransoms to save the lives of their crew members and cargo (Middleton 2008. Piracy in Somalia: Threatening global trade, feeding local wars, London: [www.chathamhouse.org.uk/files/1223303-1008piracysomalia.pdf](http://www.chathamhouse.org.uk/files/1223303-1008piracysomalia.pdf), downloaded on 15/06/2011 14:49 hrs).

persistence, resourcefulness, cool-headedness, warmth and hospitality(Solomon1992: 330).

The virtues applicable to business include, inter alia, the four cardinal virtues (prudence, courage, justices and temperance) and congenial virtues (friendliness and wit). The following paragraphs examine how the cardinal virtues fit into business before the other virtues are investigated and discussed.

**Prudence** is the master virtue on which the practising of the other virtues depends. Intellectual virtues (N.E.1141b16) involve the skill and ability to make balanced and appropriate judgements. Individuals in the business world have multiple roles and hence experience a conflict of duties. This implies that their good moral actions are dependent on good moral judgement. Thus, the virtue of practical wisdom is equally important for managers in business.<sup>35</sup>

The advantage of the virtue of practical wisdom is that its use is not only confined to a workplace but is applicable virtually anywhere and helpful in all moral situations. It is holistic and does not require serious psychological adjustment on the part of individuals. In other words, it does not lead to national schizophrenia and value incongruence. The same skills are applicable to business as well as to domestic moral dilemmas

For instance, practical wisdom does not separate business or professional affairs from domestic moral concerns (Solomon 1992:322). It is the master virtue without which the practice of virtue in any situation would be impossible. This implies that the separation thesis, i.e. the idea that business and moral concerns are separate, is not congruent with a virtue-based business framework. The two are incompatible. Separation would imply that practical wisdom in business is different from practical wisdom elsewhere.

Virtue therefore requires an individual to cultivate the habits of thinking for him or herself and making moral judgements. In this way, people can be held responsible for their actions.<sup>36</sup>

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<sup>35</sup> For instance, during the 2008 and 2010 recession, many banks and companies that received bail outs from the Obama government wanted to pay bonuses to their CEOs. Such decisions attracted a lot public criticism, specifically because it was not a prudent thing to do.

<sup>36</sup> Kantian ethics, Christian ethics and utilitarian ethics confine the scope in which an individual can exercise his or her rationality when making moral judgements. These ethical systems limit how individuals would approach moral situations creatively and have prescribed principles as well as a predefined scope and focus. It is the ethics of intellectually lazy individuals who do not have to figure out for themselves what needs to be done. All they have to do in each moral situation is to consult the books as regards what the scriptures would recommend in

Practical wisdom or good judgement is not innate in human beings. It is acquired through training and practice; it is “a product of good upbringing and proper education” (Solomon 1992:329).

**Courage** is one of the four cardinal virtues. It is a mean between cowardice and recklessness as regards what should be feared and what should not be feared (N.E. 1116a10-11) and it is also associated with the virtues honour, discipline, loyalty, respect, integrity, duty and selflessness. According to Aristotle (Rhetoric 1.9.1336b11-13), courage is a virtue by which human beings achieve honourable exploits in the midst of danger. Although courage is a military or warrior virtue, there are versions of courage that are not military.

Fortitude is a crucial virtue not only in the military but in all successful human endeavours. It refers to the basic characteristic required for an individual to survive during difficult times and in difficult situations. It requires a lot of courage to start a business with a future that is uncertain. Moreover, when the situation demands it, making difficult business decisions requires a lot of courage. Although this is not the same form of courage that is required of a soldier in combat, downsizing, mergers and hostile takeovers also require a great deal of courage. As Solomon argues:

[O]ne of the most powerful but ignored arguments against hostile takeovers and unfriendly mergers is the desire on the part of the member of a corporate community to maintain that community and this is not the same as executives fighting to keep their jobs (Solomon 1992:331).

At the heart of any successful venture is the trait of courage. For instance, Bill Gates gave up his studies at Harvard to start Microsoft, a venture that has made him one of the richest people on earth. Think of a Somali shop owner determined to run a business in the hostile black townships of South Africa, knowing very well that he risks being robbed, his shop being looted and, worse, being shot.

**Temperance** is also one of the four cardinal virtues. It refers to an individual’s ability to have control over his or her desires, emotions, and other tendencies. Temperance is a mean with regards to excess and too little pleasure. Human beings take pleasure in many things, for instance food, drink and sex. A virtuous person is one who enjoys pleasure in moderation

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such a situation. The boundaries are set as if Kant, Mill or Jesus had done all the ethical reasoning on our behalf. In this sense, virtue is more realistic, open to new demands and more respectful of individuals’ intelligence.

(N.E. 2.2.1104a25-27). For instance, in a workplace, individuals are supposed to be hard-working by overcoming the tendency of sloth/laziness and being complacent (Arjoon 2000:163). Setting up a business often demands a lot of perseverance, self-control and denying oneself certain pleasures in order to accumulate the capital to start it.

**Justice** is the last cardinal virtue. It is a trait of human character concerned with giving individuals what they are due. As a trait of human character, justice is a social virtue because it affects human relations (N.E. 1137a30). According to Rawls, justice is also “the virtue of social institutions” (John Rawls 1971:3). The virtue of justice is applicable to both individuals and institutions. This means that, like individuals, institutions too can develop a reputation, depending on how they distribute goods and transact business. The virtue of justice lies between selfishness and selflessness. It is a habit that helps individuals abide by the law and be fair in their dealings with others.

Thus justice takes many forms; it can be distributive, remedial, substantive, corrective, commutative and social. Distributive justice is concerned with the distribution of goods according to, inter alia, merit and needs. Remedial justice is concerned with contracts that have been breached and repairing the damage done. Substantive justice is closely associated with what individuals are entitled to and what they can rightly and justifiably demand from the state. Retributive justice is concerned with determining when and why punishment is justified. Corrective justice concerns the fairness of demands for civil damages. And commutative justice is concerned with how much an employer should pay his or her employees. In business, justice can be violated through fraud, billing, selling defective items, overcharging and cheating (Enron) (Audi 1999:465).

There are two types of moral virtues: self-regarding and other-regarding virtues. While the other-regarding virtues serve the interests and welfare of others, the self-regarding virtues are concerned with the interests or welfare of the agent. From a human rights perspective, self-regarding virtues are concerned with having rights oneself and other-regarding virtues are concerned with recognising the rights of others (Solomon 1992:324). “Generosity, conscientiousness, honesty, veracity, and justice are examples of other-regarding virtues, while temperance, prudence, courage and industry are examples of self-regarding virtues” (Taylor & Wolfram 1968: 238).

The virtue of **generosity** is the one that is associated with corporate social responsibility. This virtue is manifested mainly when people give each other things. For instance, when giving

money to other people, a virtuous person will do so in an appropriate manner. He or she will give the right amount to the right people and at the right time. In a similar way, a person who donates stolen items to the poor is not acting virtuously. Thus, a business that makes money through fraudulent means and uses such resources for CSR is not a virtuous firm. Art collector Brett Keble, TUNZI and Sacer Church, for instance, would not qualify as virtuous entrepreneurs. One cannot benefit from a vice and then use one's gains to exercise/practice virtue. The virtue of generosity consists in maintaining the mean between wastefulness and stinginess. This implies that virtue does not compel us to sacrifice and give to charity in such a way that we become destitute.

The **social congenial** virtues (charm, wit, friendliness and a good sense of humour) are also very important for business because they lubricate and build human relations (social capital), thereby contributing to harmony, peace and a relaxed atmosphere in the firm. While managers have to be tough and firm when dealing with their subjects, if they must also be role models and inspire human beings, they also have to be simple, modest and approachable (Solomon1992:333).

While virtues are compatible with business, this does not imply that there is no potential conflict of interest among the virtues. For instance, giving the warrior virtues too much room and attention would present a corporation and the business world as a war zone. On the other hand, paying excessive attention to the congenial virtues (wit, friendliness and charm) would soften a firm, making it too friendly and hence less competitive. In addition, paying too much attention to the moral virtues at the expense of congenial virtues would lead to rigidity and hamper cooperativeness and teamwork (Solomon1992:335). Thus, virtue-based business ethics is quite a delicate exercise, which requires constantly balancing two negative extremes so that the moral scale does not tip too much on one side.

In his book *Trust: The Social Virtues and Creation of Prosperity*, Fukuyama (1995) argues that, in order to succeed economically, economic life cannot be divorced from social or cultural life because cultures have elements that foster social and economic prosperity. Thus physical capital is as important as social capital. Focusing on physical capital and neglecting social capital have serious repercussions for business. For instance, if people are extremely individualistic and completely neglect virtue, their sense of community and their interconnectedness may not be good for business.

Consequently, the virtue framework seems to explain many social phenomena, including business conduct. For example, corporate scandals are not due to the absence of rules and government regulations. The business world is replete with moral rules, codes of ethics and laws regulating business conduct. And yet, these provisions do not seem to be adequate to stop corruption, fraud, sex abuse, child labour, human trafficking and environmental degradation. What the business world has neglected for a long time is to take the moral character of prospective employees into consideration. Even if an individual has a Harvard degree and is highly qualified and proficient in his or her field of expertise, this does not necessarily mean that he or she is also a good person. Professional credentials do not immunise individuals from moral corruption nor is moral corruption the result of the absence of good rules and laws. Instead, moral corruption is the absence of a good virtuous character.

### **3.8 Virtues in the Free Market Economy**

This section examines and discusses how virtues influence the market and how the market influences virtues. The implication of establishing a virtue-based firm is that both the workplace and the market have to be schools of virtue. The arguments regarding the influence of commerce/the market on virtues fall into two camps: those who argue that commerce has a favourable influence on virtues (doux-commerce thesis)<sup>37</sup> and those who argue that the market has a negative impact on society and virtue (self-destructive theses)<sup>38</sup> (Hirschman 1982:1463-1467; Graafland 2009: 2).

This study demonstrates that the doux-commerce thesis focuses too strongly on the capacity of markets to support and distribute goods to the community, while underestimating the market's negative effects on virtue. In a similar manner, the self-destruction thesis over-emphasises the negative effects of the market, but neglects that, through the market, people can learn and cultivate many skills as well as cultivate good character dispositions and flourish. The market is not inherently evil; the well-being of society depends on its activities. To argue that the market is evil is to throw the baby out with the bath water.

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<sup>37</sup> The proponents of the doux-commerce thesis include Montesquieu, David Hume, Adam Smith (Graafland 2009) and McCloskey (2006), Florida (2002).

<sup>38</sup> The self-destructive thesis has a long list of proponents, for instance: Plato, Aristotle and Marx (Graafland 2009).

### 3.8.1 Doux-commerce thesis

The proponents of the doux-commerce thesis argue that commerce has a very positive effect on society and the character of individuals. The French called commerce a sweetener (McCloskey 2006: 30). For instance, Montesquieu argues that, where there is commerce, manners are gentle and, where manners are gentle, there is commerce, implying that there is a causal link between gentle manners and commerce (Montesquieu 1749 as cited by Hirschman (1982: 1465). Furthermore, Samuel argues that:

Commerce attaches one to another through mutual utility. Through commerce, the moral and physical passions are superseded by interest. Commerce has a special character which distinguishes it from all other professions. It affects the feelings of men so strongly that it makes him who was proud and haughty suddenly turn supple, bending and serviceable. Through commerce, man learns to deliberate, to acquire manners, to be prudent and reserved in both talk and action. Sensing the necessity to be wise and honest in order to succeed, he flees vice, or at least his demeanour exhibits decency (Samuel 1981 as cited by Hirschman 1982: 1465).

David Hume and Adam Smith argue that commerce brings about the virtues of industriousness, assiduity, frugality, punctuality and probity (Rosenberg 1964:59-77 cited by Hirschman 1982: 1465), implying that the market is a moralising agent or rather that the market is also a school of virtue. In addition to being a moralising agent, the doux-commerce thesis holds that commerce is a vehicle that brings international social order. As Storr asserts, “Our market activities bring us into fellowship with people across the globe and across ethnicities and nationalities. The market makes it possible for diverse individuals to peacefully reconcile their plans and so create favourable conditions for feelings of friendship” (Storr 2009: 280).

These arguments in support of the doux-commerce thesis subscribe to a crucial realisation that the market is a social space where individuals come to interact, learn the virtues and flourish as human beings (Storr 2009: 279). This argument implies that commerce brings harmony and builds communities. Furthermore, the doux-commerce thesis would recommend that, since the market is beneficial to the society and human beings, it should be expanded and spread all over the world.

Evidently, commerce provides opportunities for people to interact, get to know each other, form supportive relationships and exercise both entrepreneurial and social/moral virtues.



However, this only seems to be one side of the possible effects of commerce. For instance, when you have so many individuals trying to sell similar items to one customer, i.e. when supply exceeds demand or when demand exceeds supply, one wonders how manners can remain gentle and soft. It seems that the *doux-commerce* thesis holds when the competition between traders is low or when individuals participating in the market are docile, over-focused and preoccupied with other-regarding concerns at the expense of self-interest.

Competition is at the heart of commerce. When subjected to intense competition, would the *doux-commerce* thesis survive the pressure? When a good character is subjected to temptation in the form of kickbacks, harassment or torture, how many can stand the pressure and remain virtuous? The reality that even good people can sin suggests that morality based on character is fragile and unstable under certain conditions.

The *doux-commerce* thesis explains how the market is responsible for economic prosperity and human flourishing. The market provides opportunities for individuals with entrepreneurial capacities to exercise entrepreneurial virtues and flourish. It also explains how the market distributes the goods necessary for human well-being. However, it does not explain how and why other individuals in society are poor and do not flourish and why some markets fail. Moreover, the *doux-commerce* thesis does not seem to account for how the market can also be responsible for injustice, fraud and environmental degradation. The *doux-commerce* thesis is too reductive; while it accounts for the success of a market, it does not provide a framework that explains the causes, for example, of the 2008 economic downturn or the phenomenon of market failure. The following paragraphs look into the arguments of the proponents of the self-destruction thesis.

### **3.8.2 Self-destructive thesis**

The self-destructive thesis is the opposite of the *doux-commerce* thesis. It is more pessimistic about the moral effect of the market. Its basic argument is that, instead of promoting virtue, the market has a corrosive effect on social relations and virtue. Its proponents range from ancient Greek philosophers, Plato (427-347 B.C) and Aristotle (384-322 B.C), to the contemporary critics of capitalism, Hirsch (1977), Hirschman (1982) and Putnam (2000).

Aristotle argues that commerce is necessary for human flourishing but that it should be limited to meeting domestic needs. He holds the opinion that business activities designed to meet the needs of the household do not endanger virtue. Such business is actually beneficial because it brings families together. However, business activities that are specifically meant

for making money pose a danger to virtue and human character. While people must work to realise their capacities and flourish, they must also work to produce the goods necessary for their existence and provide for their family.<sup>39</sup> Aristotle's observation is that there are certain activities that foster virtues while other business activities corrupt human character or corrode virtues. For instance, taking part in charitable activities would lead to the acquisition of the generosity virtue, while working in the fire brigade would lead to the acquisition of the courage virtue. However, Aristotle argues that the activities of money-making or wealth creation can have a detrimental effect on virtue.

Aristotle values the economic activities involved in the production of things we require for human well-being, such as food, clothes, etc. He considers such production processes natural and advises that such processes should observe the mean and that over or underproduction should be avoided. Society should produce enough to meet human needs. True wealth consists in the stock of useful things that a household needs (Aristotle Pol. 1256b30f-37). Thus, good trade means that households can barter goods in accordance with their needs. For instance, if one household has chickens but needs honey from other households, such a family can exchange a chicken for honey. In such a business transaction, there is a limit, a mean between too much and too little. The limit is determined by the user value, need and consumption (Meikle 1996:140).

However, this is not the case for activities to gain wealth, since money is used to make more money. Industries involved in such activities include the retail trade, usury business, and the finance industry. In the virtue framework, money has instrumental value. However, in a scheme of using capital to make capital, money is positioned as an intrinsic value as a goal/end in itself. In such a scheme, human beings, virtues and the arts (like medicine,

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<sup>39</sup> Aristotle's world was different from ours and hence some of his ideas are completely out of place in the contemporary world of business. In his society, men were accorded a superior position and status to rule women, children and slaves. He thought women were capable of little authority. Women's place was at home taking care of children. Furthermore, in the Athens of Aristotle's time, some human beings were not only considered inferior but were slaves and hence other people's property. Some men were born slaves, others were made slaves after being captured in battle. This does not mean the war against the emancipation of women is completely won nor that slavery has been completely uprooted. Huge populations of women in the developing world still wear the shackles of tradition and customs. In certain traditions, men with resources can marry as many women as they want. For instance, in modern times, the King of Swaziland still has the liberty to marry a virgin every year; Jacob Zuma, the current president of South Africa, has more than four legal wives. Wal-Mart, an American retail corporation, still pays women, despite being the majority in the corporation, lower wages than their male colleagues of the same rank and qualification. The problem of human trafficking implies that human beings in certain parts of the world are still objects of commerce. Therefore, Aristotle's ideas remain a constant reminder that equality among human beings remains a work in progress.

teaching and philosophy) risk being used as means only for making money. Such a scheme can corrupt the arts as well as human character. As Meikle argues:

Making money is a distinct end and art, but it is not a distinct activity. There is no activity of making money which can be conducted on its own independent of the conduct of another art or useful activity, except in the literal sense of coining or printing a legal tender. It is an end which can be pursued only by it being latched onto the conduct of some other art. This applies even to trade. Trade insofar as it is a useful service, is the art of getting things to where they are needed. That art is transformed into trade in the more familiar sense by being used as a way of making money (Meikle1996: 147).

Aristotle was concerned that a scheme in which money is used to make more money can lead to a morally reprehensible character (N.E. 1133b14-15). For instance, in a business of money making, the necessary character trait would be acquisitiveness. The desire for food differs from the desire for money. While a desire for food can be moderated by the mean, desire for money is unlimited. The more money you make, the more your desire. Like murder and adultery, retail trade and usury cannot be regulated by a mean. Greed and Pleonexia, i.e. the drive to have more and more, becomes one of the major characteristics of businesspersons (MacIntyre 1985: xiii).

This is what led Aristotle to insist that members of the polis should avoid moral corruption and moral contamination by not getting involved in the business of using money to make money. His major insight is that, instead of being a school of virtue, the retail and usury trades, i.e. lending money at an interest or excessive interest, can generate an unquenchable desire for money.

Although Aristotle was an ancient philosopher who lived in a social environment that was much different from ours, this does not necessarily imply that his ideas about business, trade and usury<sup>40</sup> are irrelevant to our contemporary world of business. We live and do business in

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<sup>40</sup> The critique of usury has a very long history. Even before and after the time of Aristotle, usury has been repeatedly condemned and prohibited both on philosophical, moral, religious and legal grounds. For instance, the Old Testament condemns usury as immoral (Exodus 22:25, Leviticus 25:37, Deuteronomy 23:19-20 advises the faithful not to lend usury to their brothers but only to strangers). In Luke 6:35 in the New Testament, Jesus gives the following advice: “love your enemies, and do well, and lend hoping for nothing again; and your reward shall be great”. This suggests that wealth could be a potential hindrance to entering the Kingdom of Heaven (Luke 19:23, Matthew 25:23, Luke 19:22-23).

global economic systems that are more usurious or interest-based than ever before. For instance, IMF's and World Bank's business is lending money at interest. Moreover, at a local level, many banks and other moneylenders provide loan facilities and charge interest to make a profit. Since moneylenders charge interest, there is room for over or undercharging interest. Hence, there is room for fair and unfair interest changes even in our modern interest-based local and global economy. In this context, Aristotle's moral concerns are relevant to our business world.

This suggests that Aristotle's conclusion that the retail trade is morally evil is wrong, because we can justify why it involves profit. A fair profit is justifiable in the retail as well as in the finance trade. Profit is justified on the productive value, utility value (the usefulness of a thing) as well as on the economic value of goods. Aristotle's criticism is not levelled on these three sources of value. His condemnation of the retail trade is targeted on the profit traders make by distributing the goods from the factory site to the shop and then to the consumers. In his opinion, the retailers have no justified reasons for making profit from the distributive services they offer.

Being a man of his time, Aristotle was completely unaware of the importance of distributive value. Individuals, who buy goods and transport them to another site for sale, add value to such goods. Such a value is not productive value, utility value or economic value but distributive value.<sup>41</sup> Hence, profit from retail trade is morally, economically and legally justified because the trader adds value to the goods he or she sells. The legitimate normative questions are: How much profit should retailers or bankers make from their services and what constitutes fair pricing?

While Aristotle indeed overreacted in his criticism of trade and usury, his insight that certain activities have the capacity to ruin virtue still stands. Thus, whoever wishes to flourish through business activities ought to keep in mind that not all forms of art or practices to make

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The Quran also states that God permits commerce but prohibits usury. It condemns those who charge interest on a loan as agents of the devil because they presuppose that usury is the same as commerce (Al-Baqarah 2:275). Thus a good Muslims should refrain from usury (Al-'Imran 3:130). If they give out a loan, they should do so interest-free because God blesses charities.

The Torah Hebrew Bible (1917 Jewish Publication Society translation) advises the faithful not to lend money at interest to their brother but can do so to a foreigner (Leviticus 25:35-37).

St Thomas Aquinas, who was a prominent theologian of the Catholic Church, argued that usury is morally unacceptable because it amounts to double charging: "charging for money and charging for its use (spending)" (Wayne A.M. Visser and Alastair McIntosh (1998), *Business and Financial History*, 8:2, London: Routledge) <http://www.che.ac.uk/publications/usury.htm> 03/18/2011 03:52 PM.

<sup>41</sup> Value theory (axiology) is concerned with how, why and to what degree things should be valued (Audi 1999:949).

money can strengthen virtue? Some activities have a corrosive effect on good character, for instance, piracy, trading drugs and waging wars in order to loot or plunder. Businesses that are only self-regarding and have no other-regarding elements are not virtue-based businesses. The moral implications of resorting to business activities that have a corrosive effect on virtues are that you not only damage other people but also ruin your own character in the process.

### 3.8.3 Contemporary critics of business

Modern criticism on business is focused on the moral demerits of capitalism. The self-destruction thesis is the view that capitalism carries the seeds of its own destruction. Far from fostering *douceur*, gentle manners and virtues, capitalism has the tendency to undermine the moral foundations on which any society rests. Therefore, if we introduce capitalism into a society, we expect it to erode the moral foundation of that society (Hirschman 1982: 1465). The question that comes to mind is: How does capitalism erode virtues?

In his book *Social limits of Growth*, Hirsch (1976) argues that the virtues of truth, trust, restraint and obligation play a central role in the functioning of an individualistic, contractual economy (1977: 141). In other words, capitalism as practiced in Western countries requires virtues. And yet, capitalism as practiced in the West is rooted in self-interest and individualism, which are both antithetical to virtue.

Individualism only considers individuals to have basic rights. It is a moral or social stance that stresses the moral worth of individuals. Individualism is rooted in the conviction that individuals' rights matter more than those of the community. When the interests of individuals are in conflict with those of the community, they take precedence over the community's interests. The opposite is true for communitarianism. However:

According to communitarians, individuals are constituted by the institutions and practices of which they are a part, and their rights and obligation derive from those same institutions and practices (Audi 1999:719).

Understood in this way, individuals are not atoms moving randomly. Individuals are constituted by the community in which they live. Virtues are community norms that regulate human conduct in a community. Individualistic capitalism, as practiced in the West, is atomistic and hence corrosive of social cohesion. By undermining community, capitalism, as practiced in the West, undermines virtues. Thus, Western capitalism is self-destructive

because it erodes the foundation that supplies the values it desperately needs to function morally. This means that, in a world that is becoming increasingly individualistic and westernised, virtues and the social context/community that supplies them are also dwindling. This, according to Hirsch (1977), MacIntyre (1981) and Putnam (2000), is what has finally comes to pass in Western societies (MacIntyre 2007: 57), and possibly explains the major causes of the 2008 economic downturn.

Hirsch argues that social morality, which in terms of market function has a legacy of being pre-capitalist and pre-industrial, has been eroded by the capitalistic overemphasis on self-interest/individualism. Consequently, Putnam argues that many forms of community life have collapsed, resulting in increasing social disconnectedness.<sup>42</sup> As MacIntyre puts it:

In such societies, the moral language is in serious disorder and incomprehensible. What we possess, are the fragments of a conceptual scheme, parts of which now lack those contexts from which their significance derived. We possess indeed simulacra of morality; we continue to use many of the key expressions. But we have – very largely, if not entirely – lost our comprehension, both theoretical and practical, of morality (MacIntyre 2007:2).

In these societies, secularisation and individualism have eroded the social structures that have supplied and supported the virtues. So what we are left with are fragments of the virtue scheme without their supporting social institutions.<sup>43</sup> If virtue is so crucial for commerce, then we have no choice but to devise and practice capitalism that is not underpinned by individualism, i.e. a form of capitalism that values human interconnectedness and builds community, an economic system that “crowds in” rather than “crowds out” virtues.

### **3.9 Conclusion**

This chapter set out to examine the implications of making virtue theory the meta-theory of business. It has demonstrated that, contrary to the separation thesis, a virtue-based business would have multiple goals, would not be regulated by rules but be self-regulated and would not need managers but leaders. Furthermore, a virtue-based market would be a free market

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<sup>42</sup> In the United States of America, the number of people who claim they have no one with whom they discuss important matters has tripled between 1985 and 2004 (McPherson et al 2006, cited by Graafland 2009:9).

<sup>43</sup> This could be one of the unintended consequences of democratisation. As liberal democracy and free market capitalism take root in Africa, our societies may become more and more individualistic and hence also lose the social supportive structure of virtue.

economy with minimal or no government regulation and intervention. Such a market would have all the elements of free market individualism because firms would be communities within a community. Firms would not simply be an aggregation of individuals (atoms) moving randomly, but would constitute a network of human relations, which, in turn, would form social capital.

However, introducing virtue to the market has three possible consequences. The first possible outcome is that the market becomes a school of virtue in which individuals can practice their virtues and acquire new dispositions. Secondly, introducing the virtues raises a dilemma because virtue is a Trojan horse to the market. Its other-regarding elements can pose a danger to business, i.e. these elements would undermine competitiveness by making business too friendly and docile and hence a firm would lose its competitive edge. On the other hand, too much focus on the self-regarding virtues can make the market too competitive, forcing individuals into survival mode, which risks turning the market into a war zone in which only the fittest survive. Desperate to survive, individuals can resort to all sorts of unethical behaviour, and thus endanger virtue.

Fourthly, proponents of virtue have to face and deal with the reality that free market capitalism, as practiced in the West, has an inevitable corrosive effect on the community and virtues. Thus, if we wish to make virtue ethics the meta-theory of business, we may have to devise a form of capitalism that does not undermine community and virtue. That form of capitalism would still have to recognise the importance of virtues and community without sacrificing the freedom of the individuals to exercise entrepreneurial virtues and hence achieve human flourishing. This is the major point of discussion of the next chapter.

## Chapter 4: Virtue-Based Capitalism

### 4.1 Introduction

In the preceding chapter, we discussed the implications of applying the virtue framework to business. One of the implications is that the framework has to face the reality that free market capitalism, founded on individualism, has an inevitable corrosive effect on community and virtues. Since the virtues are very important for commerce, we may have to model a form of capitalism or devise an economic system that enforces rather than corrodes virtues; a system that values human interconnectedness and builds community; a form of capitalism founded on an Aristotelian virtue framework.

In this chapter, we look at the advantages, disadvantages and limitations of virtue-based capitalism. To achieve this aim, Section 4.1 introduces and defines central approaches to capitalism. Subsequently, Section 4.2 discusses the problems of individualism and communitarianism and demonstrates that the virtue framework – although traditionally associated with communitarianism – allows for individuals to become self-actualised, whether through entrepreneurship or any other profession of his or her choice. Section 4.3 demonstrates that the virtue framework is more compatible with forms of collective rather than individualistic capitalism. It also argues that the collective forms of capitalism are morally superior to and more balanced than economic individualism because they are rooted in a comprehensive understanding of human nature. Finally, Section 4.4 discusses the three features of capitalism (i.e. profit motive, competition and private property).

### 4.2 Central Approaches to Capitalism

There are many approaches to capitalism. However, before we discuss various approaches, it is imperative that we spell out what constitutes capitalism<sup>44</sup>. This section defines capitalism, examines its origin, forms, varieties and culture prevalent in the world today.

#### 4.2.1 What is capitalism?

Capitalism, over its long history, has always been characterised as the use of private means to produce surplus goods to sell at a profit. Thus:

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<sup>44</sup> Socialism is the opposite of capitalism. It can be defined as an economic system in which the means of production are publically owned and the economy is centrally planned.



Capitalism is an economic system in which goods, labour, land, and financial services are transferred through relatively competitive markets and in which the means of production (land, factories or machinery) are privately owned by groups of individuals, rather than by a government (Pryor 2010:8).

Capitalism is therefore characterised by a profit motive, private ownership of the means of productions and competitive markets. This implies that capitalism exists in societies or countries in which the private ownership of capital is predominant, where the economy is mainly operated according to a private profit motive, and where economic decisions are mostly made through the market mechanism rather than by a government (Donaldson & Pollins 1978:26; Watt 1929:40).

Thus, a nation can only be considered capitalist if it is capable of producing a large tradable surplus. To do so, a country must have a good number of capitalists, i.e. individuals driven by self-interest. Likewise, capitalism is only possible if consumers are free to buy goods without any coercion. Markets in which individuals are free to produce, sell and buy goods are characterised by private ownership of the means of production, free competition and relatively few restrictions on consumers (Pryor 2010:15).<sup>45</sup>

#### **4.2.2 The origin of capitalism**

Capitalism started in the West following the end of feudalism in the 17th and 18th centuries. The Netherlands can probably be identified as the first fully capitalist country in the world with Amsterdam being the first city to offer full time stock exchange (Tawney 1948). The history of capitalism indicates that such an economic system began with the Dutch and then spread to the United Kingdom and the United States. The question that comes to mind is why capitalism originated in the West and not elsewhere.

In his book, *Capitalism Reassessed*, Pryor argues that capitalism originated or developed in Western Europe because these societies had all the favourable conditions for capitalism to blossom. For example, by the year 1700, the richest nations in Europe, i.e. the United

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<sup>45</sup> This definition of capitalism is distinguished from syndicalism, which is an economic system in which ownership of the means of production is vested in those who use them. It is also distinguished from socialism where the means of production are publically owned. Additionally, it is distinguished from what Lenin calls the “highest phase of communism” where the means of production are vested in everybody (Watts 1929:40).

Kingdom, Belgium and the Netherlands<sup>46</sup>, had accumulated enough capital to enable them to produce surplus goods for sale. Additionally, these nations had developed markets, banks, security of private property, high literacy levels, courts and police stations to enforce contracts. In addition, Capitalism in the West was spurred on by technological inventions<sup>47</sup> that made the production and transportation of goods very efficient (Pryor 2010:53).

In short, Pryor argues that, for capitalism to develop, a government must provide law and order, protect private property, reduce internal trade barriers and build an infrastructure that enables buyers and sellers of goods and services to do business. In other words, the development of capitalism requires the following basic things: technology, favourable institutions, security of private property, a good education system and political freedom (Pryor 2010:53).

In his response to why capitalism originated in the West and not elsewhere, the famous sociologist Marx Weber (1904-5), in his book *The Protestant Ethics and the Spirit of Capitalism*, argues that cultural factors are also partly responsible for the development of capitalism in the West. Moreover, capitalism in the West was spurred on by the emergence of the protestant spiritual and religious values, which encouraged the virtues of diligence, frugality, austerity and accumulation. Protestantism presents commerce and profit-making as honourable and acceptable in the eyes of God, so that good Christians would use their God-given talents to do commerce.<sup>48</sup> In such a case, as Heibroner comments: “Acquisitiveness becomes a recognised virtue – not immediately for one’s private enjoyment, but for the greatest glory of God” (Heibroner1992:33).

The Protestant ethos presented entrepreneurship as a call, a vocation. As such, individuals felt that they were on a mission to use their capacities in order to work diligently, create wealth and overcome poverty. In this way, being rich is considered a blessing and not a curse or a

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<sup>46</sup>By February 1637, the Dutch experienced the first recorded speculative bubble, which came to be known as “tulip mania”. During that period, contract prices for the tulip bulbs increased in value and thereafter suddenly collapsed ([www.wikipedia.org/wiki/Tulip\\_mania](http://www.wikipedia.org/wiki/Tulip_mania)).

<sup>47</sup> Examples of capitalistic inventions include: James Watt: the first reliable steam engine (1775); Eli Whitney: cotton gin and interchangeable parts for muskets (1793, 1798); Robert Fulton: the steamboat service on the Hudson River (1807); Samuel F.B.Morse: the telegraph (1836); Elias Howe: the sewing machine (1844); Cyrus Field: the transatlantic cable (1866); Alexander Graham Bell: the telephone (1876); Thomas Edison: the phonograph and incandescent light bulb (1877, 1879); Nikola Tesla: the induction electric motor (1888); Rudolf Diesel: the diesel engine (1892); Orville and Wilbur Wright: the first aeroplane (1903); and Henry Ford: the model T Ford and assembly line(1908, 1913) (Moyo 2011:106).

<sup>48</sup> Also, let’s not forget what the Bible says about money and riches: “Poor is he who works with a negligent hand, but the hand of the diligent makes rich” (Proverbs 10:4).

hindrance to salvation. In this framework, acquisitiveness becomes a virtue. Thus Protestant ethics provide a moral guidance, justification, as well as ethical principles that account for the prosperity of capitalism in the West.

While indeed Protestant ethics encourage virtues that can lead to economic prosperity, this does not mean that such virtues are unique to the Protestant tradition; such moral values are also available in other European cultures that are not Protestant. As Tawney argues:

There was plenty of “capitalist spirit” in the fifteenth-century Venice and Florence. Or in Southern Germany and Flanders, for the simple reason that these areas were the greatest commercial and financial centres of the ages though all were, at least nominally, Catholic. The development of capitalism in Holland and England in the sixteenth and seventeenth centuries was due, not to the fact that they were Protestant powers, but to large economic movements, in particular the discoveries and the results which flowed from them (Tawney 1943: 321).

This means that virtue and the protestant spirituality or value system alone is not enough to account for the origin of capitalism. The evolution of capitalism is not the result of a single factor but an interplay between factors of which morality and change of mind-set are prominent examples. Even if cultural factors are favourable for trade, without a good government in which to reinforce contracts and administer justice, and without a good transport infrastructure and banking service, commerce may not flourish. Nevertheless, the core of Weber’s argument, which is still valid, is that, inter alia, for capitalism to develop, a significant proportion of the population must change its mentality and embrace values that are compatible with capitalism. As Pryor (2010) points out:

Certainly the climate for capitalism seems unfavourable in peasant societies, where collective solidarity is more valued than individualism, where magic and myths, rather than rational thought dominate the thinking about the world; where profit seeking is considered grubby and trade and manufacturing are held to be unworthy occupation for gentlemen; and leisure is more highly prized than ownership of fancy goods (Pryor 2010: 73).

Thus, the contemporary relevance of Weber’s argument is that capitalism may fail or succeed to develop in a particular culture because of its dominant mind-set, beliefs, customs and cultural practises. And this could actually explain why rural black Africa is slow in

embracing capitalism as many Sub-Saharan African cultures are superstitious and associate acquisitiveness with magic and witchcraft<sup>49</sup>. They believe that one cannot become rich through one's own effort and wits. Thus, to succeed economically, one needs the intercession of sorcery and ancestral spirits (Broodryk 2010:147).

The world is full of practices that can hinder certain segments of society from benefiting from economic activities.<sup>50</sup> Take the case of India's caste system, for example, in which individuals are classified into a hierarchy of endogamous groups that individuals enter only by birth with no room for upward social mobility (Olcott 1944:648). Each of the five castes has specific duties. While the Brahmins are meant to be priests, scholars and philosophers, the Kashtriyas are meant to be warriors and rulers. Additionally, while the Vaishyas are meant to be traders, merchants and farmers, the Shudras, Pariah and Harijans (the lower castes) are the servants of the upper castes.

While capitalism is rooted in the conviction that freedom and equality are the basic characteristics of human nature, the Indian caste system assumes that human beings are not equal and that the nature of man is not that of *Homo Aequalis*, but *Homo Hierachicus* (Dumont 1980). This is therefore an example of how belief or value systems can determine or dictate how individuals should conduct themselves economically. In these societies, manual labour, for instance the disposal of dead bodies, is considered undignified and is hence meant for or associated with the lower castes – the untouchables.

In sum, capitalism is an economic system in which the means of production are largely or entirely in private hands and that operates for a profit. Moreover, in order for capitalism to develop, it requires the right institutions, infrastructure and a favourable culture. Thus, as capitalism spreads around the globe, it will shape local cultures. Conversely, since value systems are not always universal, this also implies that capitalism, as it spreads across the globe, will be shaped by local cultures. This subject is further discussed in sections below.

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<sup>49</sup> Many people in rural and urban Africa still believe in witchcraft and in the power of sorcery. They believe that, to get a job, it is not enough to work hard and acquire the right skills, but that one must also have a lucky charm. This is the reason why sangomas are still in business

<sup>50</sup>In addition, certain social practices have negative impacts on economic activity, for instance, the caste distinction in India or the binding of women's feet in China, both of which reduce the labour force available for particular work outside of the home (Pryor 2010: 73).

### 4.2.3 Forms of capitalism

Libertarian thinkers believe that human beings are free and equal. As such, individual participation in the markets should be voluntary. The market should therefore be an arena in which the invisible hand and the law of demand and supply must strictly be allowed to work without any interference. Moreover, except for enforcing contracts and protecting property rights, the state should keep out of the markets (Adam Smith 1759, Hayek 1948; Friedman 1970). The type of capitalism that is compatible with these aspirations has become known as laissez-faire capitalism, which is characterised by strict limited government participation. In such an economic system, the role of the state is likened to that of a “night watchman” (Blackburn 2005: 210) whose basic responsibility is simply to protect its citizens from violence and fraud, maintain order and provide services that cannot be accommodated in free markets (Bremmer 2010: 27; Smith 1937; Nozick 1974).

The argument for laissez-faire capitalism assumes that the market is moral, autonomous, and without any biases, and that the outcome of the market is purely rational and unaffected by political and personal interests. It also assumes that, in such a market, there is no room for any conflict between individual and societal interests as well as that markets are inherently stable and perfect, and attributes market instability to government intervention (Mohr 2012: 65). Furthermore, it believes that morality in commerce is simply a matter of pursuing personal interests or a matter of obeying one’s passions, in which case the role of reason is simply to work out the means of satisfying the passions and not interrogating the moral implications of such passions (Hayek 1948:15).

As the 2008 to 2010 financial crisis has taught us, the market does not always work perfectly. Markets are cyclical and characterised by booms, bubbles and busts (Keynes (1949). Therefore, any rupture in the market has serious social costs because it can result in a loss of business, savings and property and may require government intervention to save human lives. So, in reality, it is impossible to have pure capitalism in which the state is not involved in the economic activity (Chang 2010:1).

There are many factors that can account for market failure. At times, markets fail due to, inter alia, character flaws such as greed. As Moeletsi Mbeki (2009) notices, in a free market economy, there is a break, a gap between capitalists and managers who run corporations. In modern corporate culture, the managerial class is not accountable for the capitalist but only for other managers who are professionals but not necessarily capitalists. “The crisis of

accountability of the modern management class recently showed itself in the fraudulent accounting of such companies as Enron, Parmalat, Worldcom and Arthur Anderson to name just a few” (Mbeki 2009: 98). This suggests that some managers are wolves in sheep’s clothing. If managers can conspire to swindle a firm, expecting that the markets should regulate themselves is like putting foxes in charge of a chicken coop. As Bremmer acknowledges:

Even in a society of extreme individualism like the United States, government is expected to referee the game to ensure that players observe the rules, to serve as lender and guarantor of last resorts, and to provide public goods like national defence and criminal justice systems, public education, environmental protection, health insurance for the elderly and poor, air traffic control, and disaster relief. These services are too important to social well-being to entrust them to private enterprises (Bremmer 2010:27).

As government is required to referee capitalism, pure market economics or laissez-faire economics can be considered mere wishful thinking, impractical and unattainable. The idea of a laissez-faire capitalism is too extreme and amounts to what George Soros (1998: XX) labelled “market fundamentalism” or “untrimmed individualism”, i.e. “the strong unrelenting belief in the capacity of the market economy to solve economic and social problems”, which is very unsound and unsustainable.<sup>51</sup>

Therefore, it is no surprise that most capitalist economies are mixed economies, made up of a combination of free market elements with limited government participation. A mixed economy is therefore a combination of free market (liberal capitalism) and state capitalism. In this form of capitalism, the state uses markets to create wealth, which can be used as the political officials see fit. In his book, *The End of the Free Market: Who Wins the War between States and Corporations?* Bremmer (2010) notices that, weary of an uncontrolled free market, a number of authoritarian governments (Saudi Arabia, China and Russia) have implemented state capitalism. And yet, “[a]ll mixed capitalist systems share faith in the

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<sup>51</sup> This became the dominant ideology when Margaret Thatcher and Ronald Regan came to power around 1980. The free market philosophy has already been thoroughly tested – not in the West where the prescription was made, but in the developing countries – through IMF and World Bank Economic Structural Adjustment Programmes (ESAP). These programmes advised the developing countries to liberalise their economies by transferring state-owned firms into private hands. The social costs of ESAP were severe to developing societies. And the “great irony, of course is that the US itself did not adhere to a number of these policies” (Mohr 2012:66).

principle that only free markets can generate long-term prosperity and that government should never become the dominant player in an economy” (Bremmer 2010:27).

Apart from greed, the 2008 financial crisis was caused, *inter alia*, by toxic derivatives, offering mortgages to individuals who were not credit worthy as well as government-backed mortgages provided through Fannie Mae and Freddie Mac. In its attempt to resolve the crisis, the USA government pumped a lot of money into saving businesses, such as Ford Corporation and many other firms, from collapsing. This implies that the USA government is increasingly becoming a key player in US markets. Fortunately or unfortunately, state capitalism is on the rise. And since the free market has failed, the argument that the state should actually play a leading role in the national economic performance makes a lot of sense.

Briefly stated, capitalism has evolved due to the role the state is expected to play in the economy. If the state exercises a hands-off approach, then we have *laissez-fair* capitalism. If the state plays an active economic role in the markets, the final outcome will be a mixed economy. However, if the state has a bigger stake in the markets, the final outcome will be state capitalism. So, there are many types of capitalism.

Apart from the state’s role in defining capitalism, a study by Hall and Soskice (1980) demonstrates that capitalism is also shaped by the way in which business institutions are organised. Additionally, Hampden-Turner and Trompenaars’ (1993) study reveals that capitalism is also shaped by culture. These two studies have shown that, as capitalism has spread across the globe, it has evolved into liberal market economies (LMEs) and coordinated market economies (CMEs). These will be examined in the following sections.

#### **4.2.4 Varieties of capitalism**

Hall and Soskices (2001) argue that, with regard to capital and labour, institutional subsystems, for example, education, finance and religion, also mould models of capitalism. In their study of various business institutions in the economies of Europe, America and Asia, Hall and Soskice (2001:8) observe that capitalism has evolved into two models: one that is coordinated and another one that is liberal and less coordinated.

The markets in the coordinated market economies (CMEs) are dependent on non-market relations. These markets are characterised by collaboration rather than competition, credible commitments, and deliberative calculations on the part of firms. These non-market modes of

coordination generally entail more extensive relational or contracting network monitoring based on the exchange of private information and inside networks. In addition, firms in the CME category build their competences through reliance on collaboration rather than through competition alone (Hall & Soskice 2001:8). Firms in this category are characterised by long-term employment, strategic rule-bound behaviour, the sharing of information and durable ties with other firms. Moreover, the economic equilibrium of such markets is the outcome of strategic interactions among firms and other actors. Germany, Japan and Sweden, for example, have coordinated market economies (Hall and Soskice 2001).

Since the CMEs' major characteristics are permanent employment, incremental innovations and collaboration among firms, it can be assumed that such markets are interested in long-term rather than short-term goals. Additionally, these characteristics also imply that the CMEs are interested in market stability and the solidarity of market players. The market can facilitate the formation of long-term relationships among firms as well as the development of friendships among employees. In such a business, it is not just profit that matters. The CMEs assume that, apart from the bottom line, there are other things of superior value that can also be achieved through economic activities.

On the other hand, liberal market economies (LMEs) are the opposite of CMEs. These markets are dependent on market relations, characterised by arm's length business transactions, competitive relations, a fluid labour market and formal contracting. Additionally, these markets operate on the principle of demand and supply; they are responsive to price signalling. In these markets, firms coordinate their activities primarily via hierarchies and competitive market arrangements. Market relations are characterised by an arm's length exchange of goods or services in a context of competition with regard to formal contracting (Hall & Soskice 2001: 8). In LMEs, jobs are on contract and firms are purely motivated by profit. Because firms in these markets are short-term focused, they are characterised by radical innovation. These markets have taken a lead in, inter alia, biotechnology software. The United Kingdom and the United States of America are good examples of liberal market economies.

Taking the major characteristics of liberal market economies into consideration (i.e. short-term goals, fluid labour markets, jobs on contract and rivalry among firms), it is quite obvious that these markets are ill-equipped for the training of apprentices. Additionally, firms in such



markets cannot collaborate and share knowledge because they are competitive. Regarding this type of business world, Adam Smith states the following:

People of the same trade seldom meet together, but when they do meet, their conversation ends in a conspiracy against the public, or in some diversion to raise prices (Smith 1776:26).

Briefly stated, the studies by Hall and Soskice reveal that while, in some markets, business institutions coordinate and collaborate, there is rivalry among institutions in other markets. Owing to such rivalry, these markets are characterised by radical innovations. However, the authors admit that this classification is not fitting for all the markets in Europe and Asia. For example, the French, Italian and Spanish economies have characteristics that are not very fitting in either of these two categories. Additionally, this study's focus is limited as it only investigates how business institutions relate to each other but does not examine these markets' value assumptions.

Of course, there are value assumptions that underlie both CMEs and LMEs. Since the value system determines or influences the choices one makes in life, it is not coincidental that certain countries have developed liberal market economies while others have developed coordinated market economies. If Hall and Soskice had taken the culture of the institutions into account, they may also have found out that there are more varieties of capitalism in the world. Turner and Trompenaars (1993) undertook such a study; the next section will examine their findings.

#### **4.2.5 Cultures of capitalism**

Instead of focusing on the institutions and how they relate to each other, in their book, *The Seven Cultures of Capitalism*, Hampden-Turner and Trompenaars (1993) sought to understand the value systems that account for the economic success of the United States of America, Japan, Germany, France, the United Kingdom, Sweden and the Netherlands. This study was motivated by the assumption that values are the guiding principles that influence the attitudes and manner in which human beings conduct themselves. So to understand the economic success of the Germans, Japanese and the Chinese, it is also necessary to study their value systems so that we can establish what motivates them to do what they do. As Hampden-Turner and Trompenaars put it:

Myth told us the Germans were particularly good at building infrastructure and that Americans excelled at invention (dreaming up new products), whereas the Japanese excelled at innovation (getting those new products to the market). Why should such skills correspond to nationality? Wasn't wealth creation the dry stuff of science not the mysterious province of culture? (Hampden-Turner & Trompenaars 1993:3).

This study reveals that, although these countries are capitalist, they do not practice capitalism in similar ways. While all of them subscribe to the philosophy of capitalism, their economic success has been underpinned by different cultures. As Hampden-Turner and Trompenaars explain:

In our survey of 15 000 executives we found that culture of origin is the most important determinant of values. This means that culture, a deep structure of belief is the invisible hand that regulates economic activity. This implies that culture is the bedrock of national identity and the source of economic strengths and weakness (Hampden-Turner & Trompenaars 1993:4).

In short, Hampden-Turner and Trompenaars's study demonstrates that the economies of the seven countries involved in the study operate according to two different value systems. While the German, Japanese, French and Swedish markets are coordinated, collaborative and, hence, more collective, the markets of the United States of America, United Kingdom and Holland are liberal, adversarial, less coordinated and, hence, more individualistic. "For example, in the United States, the scale is weighted heavily on the side of individualism. In Japan the scale tips in the opposite direction, favouring communitarianism" (Hampden-Turner & Trompenaars 1993:8).

Empirical studies in the fields of sociology and psychology have revealed that individualistic and collectivistic value systems are the two dominant value systems in the world. These studies indicate that the West is more individualistic than the rest of the world. As Triandis (1995: 13) observes: "The majority of the world, roughly 70 per cent of the population is collectivist" (Triandis 1995:13). And this implies that only 30 per cent of the world population is individualistic.

Hofstede's (2001) study also suggests that the United States of America is the highest individualistic country in the world with an individualistic index value (IDV) of 90, followed by Australia, Great Britain, Canada and the Netherlands. Guatemala has an IDV of 6. South

Africa has an IDV of 65 due to the country having both individualistic and collectivistic value systems. The black population is predominantly collectivistic while the white population is predominantly individualistic (Hofstede 2001:215).

There are several lessons we can draw from these studies. Firstly, since capitalism has triumphed over socialism, contemporary competition is no longer between capitalism and socialism, but between rival cultures of capitalism. This implies that, in a competitive global market, the economic success of each country depends on how well it comprehends and learns from the deepest motivation of its trading partners.

The second lesson relates to the importance of culture in economic development. Since the values that drive wealth creation stem from culture, and since cultures differ from place to place, the values that should inform commerce are not necessarily universal. While Western European capitalism is engendered by puritan ethics from which Protestant sects discerned their mission on earth, capitalism in other societies is shaped by different values. This means that the world is not yet a global village running on one set of values.

Thirdly, while Adam Smith (1776) suggests that self-interest is the main invisible hand that regulates the market, the work of Hampden-Turner and Trompenaars (1993) suggests that there are other invisible hands that regulate the market. This is reflected in the manner in which institutions relate to each other in the markets. While, in some markets, institutions are adversarial and individualistic; they share information, collaborate and coordinate their activities in other markets.

Fourthly, another very crucial lesson we can draw from China's, Germany's and Japan's economic history is that liberal values are not the only values that guarantee economic success. As previously argued, the type or form of capitalism being practiced in, for instance, the United States of America and Britain is individualistic, Germany, Japan, and Asia practice collective/communitarian capitalism. This suggests that individualism is not the only value system that leads to economic success. A combination of both liberal and collective values can also lead to economic prosperity.

The fifth lesson we can draw from these studies is that economic systems are not culturally neutral. Markets are embedded in culture and they should, as a result, reflect certain values and commitments. Since culture is a human product, markets are not autonomous and objective. If markets were autonomous, they would not be susceptible to the influence of

cultures. As a result, the spread of capitalism around the world has two implications. As it spreads around the globe, the local cultures will shape capitalism, while, in turn, capitalism will shape the local cultures as well. For instance, cultures that do not regard self-interest and acquisitiveness as moral values will have to rethink and adopt self-interest as a value.

In summary, when the government does not intervene in markets, we have laissez-faire capitalism. However, when governments provide services as well as their own means of production, we have a mixed economy; i.e. a mixture of state and private capitalism. When the state has an upper hand in the economy, we have what is called state capitalism. Furthermore, as capitalism spreads across the world, it influences local cultures, while local cultures, in turn, shape capitalism. Since cultures are either individualistic or collective, it is important to examine the implications of setting up virtue-based capitalism in both contexts.

### **4.3 Problems of Individualism and Communitarianism**

Owing to its emphasis on community, virtue theory is generally associated with communitarianism (i.e. the idea that community is the basic unit of society), rather than individualism (i.e. the doctrine that an individual is the basic unit of society). However, because of its emphasis and focus on individual interests, individualism seems to provide better scope for individuals to self-actualise than communitarianism. This section therefore endeavours to show that, although the virtue framework is associated with communitarianism, it provides ample scope for individuals to exercise individuality and self-actualisation. This is possible because the virtue framework is made up of the positive elements of individualism and communitarianism. Moreover, it avoids the negative extremes of both individualism (which ignores the importance of community) and communitarianism (which suffocates individuality).

#### **4.3.1 Individualism**

Individualism has a very long history. It is associated with Locke, Hume, Rousseau, Bentham and Spencer as well as Lord Acton, Alexis de Tocqueville, Bernard Mandaville, Adam Smith and Mill (Hayek 1948:5). It puts emphasis on individual autonomy, the universality of values as well as the natural rights and neutrality of government concerning rival claims of what constitutes a good life (Daly 1994:X). It is a liberal doctrine or stance that is rooted in the conviction that the core unit of society is the individual. In its extreme form, individualism can be committed to atomism, holding that an individual is “a complete atomistic entity with absolute autonomy and freedom” (Arjoon 2005: 461; Audi 1999: 719).

For example, according to John Rawls (1971), the individual is the only “self-originating source of a value claim”. And when individual interests are in conflict with community interests, the individual’s interests should take precedence. This implies that society exists to promote the well-being of individuals and individuals do not live to promote the well-being of society. Ethically, it implies that individuals have no other moral responsibilities apart from pursuing self-interest (Lukes 1973: 99). As such, self-interest can easily degenerate into selfishness or greed.

Socially, individualism considers society and other persons to pose a threat to the freedom of the individual. Therefore, an individualistic social world is one in which the individual is sovereign, atomistic and focused on self-interest and has regard for anyone else. In such a world, social virtues and human relationships are merely for transactional purposes. Economically, individualism could lead to laissez-faire economics, extreme economic individualism or unregulated capitalism with minimal state intervention a doctrine that has been defended by classical liberals such as Mises (1881-1973), Friedman (1970) and Hayek (1899-1992). As Lukes points out:

Thus Friedman doubts that governments can manage their economies successfully and is critical of most social services as economically inefficient: instead he advocates a negative income tax and giving money to the poor. Additionally, Hayek advocates the abandonment of economic planning, the severe curbing of trade union powers, the dismantling of progressive taxation, the dropping of planning and rent controls, the withering away of the direct provision of education by the state, the restoration of wealth as a criterion for entry into higher education and the cessation of government conservationists (Lukes 1973:93).

Of course, individualism has several advantages and disadvantages. The basic advantage of individualism is that it recognises the importance for individuals to exercise self-determination by pursuing self-interest. In this way, it promotes independence and self-reliance, i.e. the idea that all people should stand on their own two feet and take care of themselves. Furthermore, individualism recognises and encourages individuality and uniqueness. It rightly assumes that individuals are not just faceless members of a group but are independent and unique. This implies that it is not always right to conform to group whims because conformity can kill individuality, personal initiative and creativity. Therefore,

individualism provides a well-founded justification of why society should tolerate an individual's pursuit of self-interest, whether in the arts or entrepreneurship.

The pursuit of self-interest is congruent with the virtue framework, which asserts that the exercise of virtues and human flourishing is voluntary. Thus, virtue is also partly individualistic because the cultivation of virtues and human flourishing are both self-interested. However, people do not only exercise virtue in the pursuit of self-interest; virtue is also other-regarding (Solomon 1990).

From other perspectives, individualism can also be quite destructive. For instance; by promoting individual interests, individualism does not emphasise people's responsibilities towards the community to which they belong and the duties they must perform to uphold their community. And yet, every person is a member of a certain community. Membership goes along with certain rights as well as duties. By focusing too much on self-interest, individualism risks promoting selfishness. In this way, individualism can be hostile towards the community and undermines the cultivation of virtues.

Another weakness of individualism is that it disregards the common good (Wing 1992). Individualism does not make provisions for civil society, trade unions, family, clan, labour unions, alumina associations or religions. It ignores the importance of culture or shared values and traditions. As a result, it leads to the weakening of family ties and undermines associations and communities, which alone can nurture human flourishing (Kymlicka 1988:181). Worse still, by promoting self-interest, individualism does not take into consideration the plight of those in our society who cannot look after themselves. As a result, it undervalues and denigrates the societal position of children, the disabled, the unemployed, and all the people whose well-being is dependent on charity (Wing 1993:301).

As a social and economic system, individualistic capitalism is therefore toxic to virtues. On the one hand, individualistic capitalism needs virtues and yet, on the other hand, it has no capacity for nurturing and supplying virtues. If a business ethics is founded on individualism, it would have strong self-regarding aspects but quite weak other-regarding aspects. Such a business ethics would certainly put society in the direction of "every man for himself", where the motto of "dog eat dog" would be at home (Newman 1997:634). Moreover, this form of capitalism would not prescribe to the conviction that firms have a corporate social responsibility to their stakeholders (Freeman 1994:409).

In summary, individualism promotes individual autonomy and brings forward the importance of individual identity. However, this is achieved by ignoring the importance of community. Consequently, individualism undermines the responsibility a person has to family, friends and various other groups in society (Daly 1994: XVii). Moreover, a firm that is founded on individualism would only be interested in promoting the interests of its owners (Friedman 1970).

#### **4.3.2 Virtue and communitarianism**

Communitarianism is the polar opposite of individualism. It is the social/political/moral doctrine that the basic unit of society is not an individual but a community because individuals are socially constituted and situated (Blackburn 1999:68). Although not all philosophers identify themselves as communitarian, those who have framed their ideas in opposition to liberal individualism have been labelled communitarian. The notable proponents of communitarianism are Aristotle, Alasdair MacIntyre, Michael Sandels, Charles Taylor, Michael Watzler and Amitai Etzioni (Newman & De Zoysa 1997:623). They are all united in the conviction that “liberalism does not sufficiently take into account the importance of community for personal identity, moral and political thinking, and judgements about our well-being in the contemporary world” (Bell 1995:4). They also believe that, under the influence of a revitalised community, human beings would be able to live more fulfilling personal lives than is now possible under the dominance of the individualistic ideal (1994:xiv).

Communitarianism is a post-liberal philosophy designed to rectify the damage caused by liberal individualism. It is rooted in the conviction that human beings are social animals and that each person is a member of a community or wired to a network of social relations from birth (Aristotle 1280b10). As a result, we humans are inclined to think of ourselves “as members of this family or community or nation or people, as bearers of this history, as sons or daughters of that revolution, as citizen of this republic” (Sandels 1981:179).

As such, communitarians hold that community is the basic social unit. This implies or assumes that individuals are not separate entities. The basic advantage of communitarianism is that it promotes cooperation, teamwork, and productivity. Since, in communitarianism, individuals are interdependent, each one’s well-being depends on that of the other; communitarianism thus promotes feelings of group unity and harmony. However, this communal system may achieve harmony/peace and cooperation at the expense of justice. By

insisting on group identity, communitarianism can suffocate individuality, individual initiative, self-determination and creativity, which are necessary for entrepreneurship (Wing 1992:304). In this way, communitarianism provides opportunity for the majority to stifle individuality because, when individual interest is in conflict with community interests, it is bound to be sacrificed for the common good. As Wing (1992) rightly notices:

It can result in forcible inclusion of individuals by coercing their compliance into one model of community. If the powerful are authoritarian, fascist, or fundamentalist, they can stifle or prohibit the development of other individual or group perspectives within the community. For example, the majoritarian view in some societies dictates that all women must wear long dresses and head scarves in public, regardless of each individual woman's wishes (1992:304).

In extreme cases, therefore, communitarianism that is over-focused on the common good can degenerate into authoritarianism and central planning. Economically, communitarianism can lead to socialism and central planning, dictating to individuals what they can and cannot do economically, thus diminishing the scope for free will, which is necessary for entrepreneurship. In its extreme form, therefore, communitarianism is quite antagonistic and destructive. The virtue framework avoids such extremes.

### **4.3.3 Virtue is both individualistic and communitarian**

The virtue framework is neither extremely atomistic nor extremely collective. It is made up of the positive aspects of both individualism and communitarianism. It constitutes a balance between extreme individualism and extreme communitarianism. As Worthen notices:

At the extreme of each ideology, the other begins to lose all meaning. At the extreme of individualism, where personal autonomy reigns as the supreme virtue, one encounters anarchy – a system that embraces no community values. At the extreme of communitarianism, where community values are the only determinant of acceptable behaviour, one encounters totalitarianism – a system that rejects individual differences. Neither extreme is attractive. Yet properly balanced, the two ideologies can produce a consistently shifting but ultimately enriching, social milieu (Worthen 1993:475).

Community and human flourishing are part and parcel of the virtue framework. In this framework, an individual cannot exercise virtue and flourish outside of the community



because it is rooted in the conviction that an individual is both socially constituted and socially situated. Additionally, human flourishing and virtue are voluntary, which implies that virtue is partly both individualistic as well as communitarian. It is individualistic because human flourishing is self-interested; and it is communitarian because it is founded on the conviction that one cannot exercise virtues and flourish outside of the community. In this way, the type of community in which the individuals can exercise virtues and flourish is one where individuals can exercise individuality and manage their affairs.

The virtue framework constitutes a solid and balanced moral foundation for capitalism. It takes into moral consideration the interests of both individuals and community. Thus, it takes care of the entrepreneur's as well as his or her customers' interests. It is both self-regarding and other-regarding (Solomon 1992). In this way, the virtue framework builds and integrates the strengths of individualism as well as communitarianism. One could thus argue that it opposes both extreme individualism and extreme communitarianism.

As we have already demonstrated in the paragraph above, in an extreme form, both individualism and communitarianism can corrode virtue. If individualism is overly preoccupied with self-interest, it can promote egoism and greed. On the other hand, if communitarianism is too focused on the common good and harmony in society, it can suppress individuality and sacrifice individual autonomy for the common good. Thus, the advantages or strength of the virtue framework is its incompatibility with both extreme communitarianism and extreme individualism. In this way, virtue is limited in its applicability. It does not provide moral guidance on extreme individualism or extreme collectivism.

However, because it represents a mean between two extremes, the virtue framework is not extremely individualistic or extremely communitarian. Instead, it has elements of both. Thus, the virtue framework provides a foundation for an economic system and business ethics that synthesise both liberal individualism and communitarianism, and are thus both self-regarding and other-regarding. Consequently, virtues will thrive in markets that are not extremely individualistic or extremely communitarian/collective. In such markets, virtues will provide steady, reliable moral guidance because, in such cultures, individuality is not suppressed. As we demonstrate in the following section, the virtue framework is more compatible with forms of collective rather than individualistic capitalism.

#### **4.4 Forms of Capitalism Compatible with the Virtue Framework**

The whole world is now capitalist: liberal capitalism in the USA and UK, welfare capitalism in the EU and Japan, and a mix of state and private capitalism in China and Saudi Arabia (Van Beek 2012:20). This section examines the LMEs and CMEs, and demonstrates that, while the CMEs reinforce virtues, the LMEs erode them. Hence, the CMEs and not LMEs operate according to superior business ethics because they nurture and crowd in virtues, thereby building human relations and communities.

##### **4.4.1 Virtue in liberal market economies (LME)**

The basic characteristic of a liberal market economy (LME) is that it is individualistic, competitive, has a footloose labour force and is interested in short-term gains. However, a footloose labour force cannot stay in one place for long enough to be an effective role model to novices or to cultivate long-term relationships with other workers. The suitable labour force for such markets is experienced professionals rather than novices or apprentices. Thus, the LMEs are not conducive to nurturing virtues.

Furthermore, in traditional business management, in the liberal market economies, the goal of a business enterprise is not to achieve a virtuous life but rather economic efficiency (Friedman 1970). In such a scheme, capital, entrepreneurial virtues (tradesmen, farmers and labourers) are mere means for achieving the bottom line. In such a scheme, virtue thus loses its intrinsic value. When business practices focus on profit (external goods) and neglect virtues (internal goods), “virtues might suffer first attrition and then perhaps something near total effacement” (MacIntyre 2007:196).

However, this does not imply that economic activity cannot be a vehicle for nurturing and promoting virtues. Since markets bring people together, economic activity has the capacity to nurture and promote virtue. However, virtue can only be nurtured under appropriate market conditions. Whether business nurtures or corrodes virtue depends on the culture of the firm or the way the firm operates (Gibson 2007:47).

In a world where unemployment is on the rise and the labour market is fluid, the chances of the youth acquiring virtues through business practice are slim. Furthermore, in a world that is becoming increasingly individualistic and, hence, hostile to virtue, commerce cannot only depend on society to mould a virtuous character. Since commerce is impossible without virtues, it is necessary that business institutions take a proactive approach to establishing virtue by developing business cultures that nurture and reinforce it. In this way, markets will

also be schools of virtue. The assumption of the virtue framework is that “market outcomes are not natural phenomena. They can be changed” (Chang 2010:258).

#### **4.4.2 Virtue in coordinated markets economies (CMEs)**

Coordinated market economies (CMES) have the necessary structures for nurturing and reinforcing virtues. These markets are collaborative, coordinated and, hence, bring people together. They offer permanent, stable jobs, which is conducive to vocational programmes for apprentices who can learn from experienced role models. Since they are, by their very nature, collaborative and cooperative, such cultures have the potential to enforce virtues. Thus, in societies where such markets are predominant, virtue is being nurtured, which stimulates economic activity and crowds in virtue.

Cooperative and collaborative activities are therefore very necessary for virtue (MacIntyre 2007:187). Since virtue requires practice, it can only be acquired in a social context where people are connected, i.e. where individuals can exercise individuality as well as cultivate relationships and bond with others through exercising virtues. Thus, to ensure a successful application of virtue, a business must be viewed as a practice that is concerned with, inter alia, cultivating virtues. Thus, in such markets, businesses practices can indeed be considered schools of virtue.

For instance, the German labour market is characterised by long-term secure employment opportunities and it also has a dual system of vocational training “which combines classroom instructions with work experience” (The Economist April 14-20). This provides a social and economic environment that is conducive for the training of novices. As the Economist (2012:16) reports, despite the world financial crisis, the “German system of apprenticeship and vocational training, divided into some 350 trades, has helped keep youth unemployment in Germany lower than elsewhere in Europe” (The Economist 2012:16).

The virtue framework is rooted in a balanced understanding of human nature, which rightly assumes that human beings are rational and social animals: individuals who can think and do things for themselves (autonomous), but who can also do so in collaboration with others (Trigg R. 1999:23). Such an individual has a dual responsibility: to the self and to the community. As Tom (1997:2) fittingly remarks: “We are living on an interdependent planet, and corporate systems are always subsystems of that interdependence, and they require collaboration and partnership”. This interdependency should therefore be factored into the way in which we run and manage economies.

In sum, the virtue framework is made up of positive elements from both individualism and communitarianism on which we can build a form of capitalism and business ethics that is socially and morally balanced (Bremmer 2010:25). However, such an economic system will still be congruent with the principle features of capitalism. Thus, even if the cultures of the world may vary from place to place, capitalism retains the following features: profit motives, competition and private property. Let's examine how these features impact virtue and how virtue, in turn, impacts them.

## **4.5 The Features of Capitalism**

As already stated above, even though approaches to capitalism vary from one culture to another, whatever form it may take, it still retains three distinct features: a profit motive, competition and private property. In this section, we discuss how these features and virtues affect each other.

### **4.5.1 Competition**

As capitalism is an economic system in which individuals voluntarily participate in the market and are free to produce and sell their goods, and because each entrepreneur would be striving for a greater share of the market in the pursuit of self-interest, firms are bound to collide with others with similar interests. Rivalry in such a market is inevitable. Competition is therefore one of the paramount features of capitalism. It stems from each entrepreneur wanting to sell as much as he or she can. To get customers, a businessperson has to create and offer better goods or services at lower prices than his or her rivals. Such rivalry among businesspeople can be at the level of the price of goods, means of production and sources of supply of material (Schumpeter 1957:82-85).

According to Smith, free competition is the regulator that keeps a community activated only by self-interest from degenerating into a mob of ruthless profiteers. When traditional restraints are removed from the sale of goods and from wages and when all individuals have equal access to raw material and markets, everyone is free to pursue his or her own interests. In pursuing their own interests, people enter into direct competition with others who are similarly motivated. If either party allows blind self-interest to dictate its actions – for example, by price gouging or employee exploitation – it will quickly find itself beaten out by a competitor who, for instance, charges less and pays a better wage. Competition thus regulates individual economic activity (Shaw 2008:127).

In a similar manner, the price of commodities is also regulated by the law of supply and demand. When the supply of goods is high and the demand is low, the prices of goods fall. In such a case, as Shaw (2008:127) comments, “inefficient manufacturers start dropping like flies. As the competition thins out, the demand for goods slowly balances with the supply, and the price regulates itself. Ultimately, equilibrium is reached between supply and demand, and the price of goods yields a normal profit to the efficient producer”.

Therefore, competition is beneficial to both producers and consumers. By demanding a specific product, consumers place producers in competition with one another to meet the level of demand. In modern capitalist economies, competition boosts innovation and productivity:

The first is through incentives: encouraging improvements in technology, organisation and effort on the part of existing establishments and firms. The second is through selection: replacing less productive with more productive establishments and firms, whether smoothly via the transfer of market shares from less to more productive firms, or roughly through the exit of some firms and the entry of others (Carlin et al 2001:67).

Competition therefore provides incentives for firms to produce quality goods and services. In order to produce such goods and services, they have to be well organised, work hard and be more creative/innovative. Competition therefore determines how entrepreneurs will behave, the quality of products that will be sold on the market and the means of production required for a firm to remain competitive. In short, competition affects productivity and innovation. Competition can therefore trigger a turbulent process, of “creative destruction”, a term coined by the Joseph Schumpeter in 1942 (Kariv 2011:300).

Furthermore, competition calls for certain character attributes without which an individual cannot succeed in a capitalist system. As competition intensifies for instance, success in business will demand diligence, creativity, inventiveness, courage, determination and prudence. Competition spurs virtues, which in turn lead to higher productivity and economic growth. This means that a country cannot have economic growth without the virtues of hard work and high productivity. However, this is only one side of the story.

Competition does not stimulate creativity and innovation at all levels. Entrepreneurs operating in markets that are characterised by low competition, for example; are not under

pressure to produce and provide good quality products in order to remain in business. This means that low levels of competition have a negative effect on virtue and productivity. This also suggests that policies that dampen competition – for instance, monopolies, cartel, subsidies, affirmative action and social welfare – can corrode virtue. Such policies can thus induce laziness and complacency.

While vigorous competition spurs and enforces virtues, moderate to high levels of competition generate or induce productive behaviour in entrepreneurs – behaviours that can be virtuous or vicious. In his paper “Doux-Commerce and Self-Destruction in a Curvilinear Relation between Competition and Virtues”, Graafland (2009) demonstrates that, while competition is crucial in capitalist markets, situations of low as well as intense competition can have an adverse effect on virtue. For example; a situation of low competition does not call for the virtues of courage, truthfulness, prudence or diligence. Since virtue depends on practice, it means that, in a context of low competition, individuals cannot exercise these virtues. Graafland rightly argues that:

Beyond a certain degree of competition, self-destructive forces set in, forces that “crowd out” virtues. For instance, if competition becomes very fierce, courage will turn to fearfulness and recklessness, satisfaction to dissatisfaction, honesty to opportunisms and diligence to overzealous behaviour with accumulating distortions of other virtues such as temperance and prudence (Graafland 2009:1).

When competition is fierce and when survival is at stake, individuals are desperate; there is very little room for morality. This means that, in situations of very high competition, virtue may not lead to efficiency. In such situations, entrepreneurs may be compelled to substitute virtue with vice in order to gain an economic advantage. Thus, the virtues are in a curvilinear relationship with competition, i.e. situations of both low and fierce competition will corrode virtue. Thus, the *doux-commerce* thesis (Hirschman 1982:1465) (i.e. the idea that commerce is moralising), may hold in situations of high competition, while the self-destruction thesis (i.e. the idea that commerce is morally destructive) may be realised in situations of fierce competition.

This also implies that individuals raised in competitive markets are very likely to have virtues that cannot be acquired in a non-competitive environment. Individuals operating in markets with low competition do not have to distinguish themselves as hard working, creative, innovative, prudent and honest in order to retain customers. Since virtue is enforced through

practice, a lack of practice due to a lack of competition certainly weakens or corrodes virtue. This also implies that individuals raised in less competitive markets would find it difficult to operate in markets that are very competitive because they lack the necessary and appropriate moral dispositions.

The disadvantage of the virtue framework is that it is not stable enough to guarantee moral guidance in situations of both low and fierce competition. The effectiveness of the virtue framework is limited to specific contexts: contexts of moderate to high rather than intense to fierce competition. Thus, if not regulated and managed, competition can be very destructive to virtues.

This also indicates that, in virtue-based markets, competition cannot be an entirely self-sustaining process. It is a process that must be protected, encouraged and, at certain times, stimulated. By protecting competition from human conduct, such as cartels, monopolies, and encouraging competition by stimulating a weakening economy, governments would also be protecting and boosting virtues.

In the same way that competition can have a positive or negative effect on virtue, virtuous activities can have a negative or positive effect on competition. For example, if an entrepreneur or the owners of business is too preoccupied with other-regarding concerns, such a business could eventually lose its competitive advantage. For example, as Thomas Gilmore comments: "To build a smokeless factory when no competitors are incurring the costs is individual firm suicide. Not only do good guys finish last but they might not finish." (1993:31).

This suggests that a virtue-based business can only survive in the context of likeminded virtuous entrepreneurs, among individuals who subscribe to similar moral values. In situations where non-virtuous and virtuous businesses coexist, the non-virtuous firms will have a free ride and have an economic advantage over the virtuous firms. In this sense, again, the effective applicability of virtue is limited. It is only effective among likeminded virtuous entrepreneurs.

In summary, competition determines the behaviour of entrepreneurs. If competition is regulated to the appropriate levels, it can trigger initiative, efficiency and economic growth. However, if it is unregulated, it could degenerate into fierce conflict that can undermine virtue. For example; low and fierce competition due to cartels, subsidies and corruption

undermines virtues. Thus, there is a need to regulate competition to levels that encourage and nurture virtues and avoid levels of competition that corrode virtues. As a result, a virtue-based market is not self-sustaining because it may require government intervention to regulate competition. Thus, the benefits of both virtues and competition in the business world can only be realised when competitive efforts are regulated or restrained (Carlton 1949:253). Now let us examine the role of the profit motive in business and how it affects virtues.

#### **4.5.2 Profit motive**

The profit motive is one of the crucial features of capitalism. It is the desire for gain, which drives individuals to participate in economic activities. As Adam Smith noted:

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 necessities but of their advantages (Smith 1957:37:14).

Understood in this way, from a managerial perspective, the goal of a business enterprise is not a virtuous life but profit.

This understanding of the goal of business is rooted in the assumption that “a human being is by nature an acquisitive creature and when left to his or her own devices, will pursue profit with all the instinctual vigour of a cat chasing a mouse” (Shaw 2008:126). This implies that human nature is only self-interested, i.e. that the nature of man is that of homo economicus (Shaw 2011:137). When profit becomes the primary goal of business, employees and firms’ owners become mere instruments for the bottom line. This understanding of business assumes or presents firms as autonomous profit-making machines, as if firms are self-made and self-regulating like natural organisms. Moreover, this implies that business goals are independent from human goals.

Brown (2010) argues that this is an incorrect interpretation of the nature and purpose of business. This interpretation originated from Adam Smith (1776), who focuses too strongly on the economics of property. By focusing too strongly on profit or property, Smith manages to obscure the sets of human relationships responsible for making a profit. Brown proposes that we need to change the way we think about the role of the economy from the Enlightenment economics of property to economics of provision.



According to the virtue framework, a firm is an artefact, a product of human effort. As such, it cannot have goals that are independent from those of the owners who set up that business. In the virtue framework, individuals set up businesses to realise their entrepreneurial capacities. Therefore, the goal of a virtue-based business is to provide goods and services necessary for human flourishing. In this scheme, profit becomes a means rather than an end of business. As Shaw argues:

Wealth maximisation is not the mega-virtue of the professionals or managers. In fact, wealth maximisation is not a virtue at all. Virtue cannot be reduced to physical outputs. They are character habits or learned propensities that foster excellence. These propensities are the products of a lifetime of training and conditioning to excel in one's undertakings, whether it be chess, painting, medicine, accounting or other business-related professions, or business management. Profit maximisation may indeed be a by-product of such excellence, but it is not the *raison d'être* of corporations led by men and women of virtuous character (Shaw 1995:854).

The virtue framework business model has many advantages that make it possible to understand entrepreneurs' motivation. Firstly, the major goal of a virtue-based economic system is to provide means of and opportunities for human flourishing. In such a system, entrepreneurs realise their capacities by setting up and operating businesses. Moreover, an entrepreneur seeks profit not for the fun of it, but as a means to actualise his or her own capacities and those of his or her business. Since markets are artefacts, they do not operate like a natural organism, i.e. they are not autonomous/self-directed. Markets cannot be dependent on human economic activity and, at the same time, be autonomous profit-making machines.

Unlike Smith's invisible hand concept, the basic advantage of the virtue framework is that it does not obscure the human hand at work in the markets. Economic activities are human activities. Consequently, the players in the markets have rights as well as duties. As a result, individuals should be responsible for both the desirable and undesirable outcomes of markets.

In this sense, the virtue framework is rooted in a more balanced view of human nature than implied in the *homo economicus* model. A balanced human life is one that harmonises the tensions and demands of being a rational, social, political and an economic creature. To have a fully balanced human existence is to lead a life that does not privilege one element of human nature by neglecting or deliberately omitting other equally important elements. Doing

so will certainly disfigure or deform human nature and lead to what Eric Voeglin (1990) termed “pneumopathology”, i.e. “disease” or a “disorder of the spirit”. As a result of such deformity, homo economicus, without being conscious of his or her social and political nature, has no basis for recognising that profit can only have instrumental value.

In a scheme where profit is regarded as having an intrinsic value, homo economicus is a slave to his or her own desires. Instead of homo economicus controlling his or her desire for money, the desire for money controls homo economicus. Such a scheme has serious implication for human well-being. A good driver should be able to control his or her car, but if that driver loses control the driver, something nasty will happen. In a similar way, human beings are not meant to serve money but money is meant to serve human beings. In such a framework, profit cannot be the sole goal of business but rather the means necessary to sustain the business, pay wages and earn capital for further investments so that the firm can serve more people (Solomon 1992). This implies that human conduct in the markets should be regulated so that the markets can serve their intended purpose (Brown 2010).

In this way, the virtue framework makes it possible to talk about the morality and injustice of an economic system. Adam Smith presents markets as if they are autonomous and self-regulating and as if they are a natural organism, subject to the laws of nature. Such an understanding of markets makes it difficult to talk about human moral responsibility when the market collapses or fails due to human misconduct. The strength of the virtue framework rests on the realisation that an economic system does not run itself. It is a human artefact and is hence perpetually dependent on human economic activity. In this way, the virtue framework holds human beings responsible for the efficiency as well as inefficiencies of markets. And when entrepreneurs mess up the markets, as they often do, they should also play an active role in its rehabilitation so that they can continue to serve the community and promote human well-being.

Furthermore, the virtue framework offers a more clear and concise articulation of the nature and role of human beings in business. Running a successful business requires more than just having a desire for money/wealth. First of all, a person must have the necessary entrepreneurial capacities so that the success of his or her business is also the realisation of his or her capacities. From the perspective of the virtue framework, a business firm is not a natural organism but a product of human creative endeavours. In the competitive world of business, therefore, profit is a reward for providing excellent goods and services.

Entrepreneurs or firms that do not provide marketable goods and services will not get such a reward (Solomon 1990).

Briefly stated, traditionally, making profit for the owners is considered the goal of a business. This view regards profit as having an intrinsic value. As such it assumes that businesses and economic systems are autonomous and self-regulating natural organisms. Thus, the virtue framework provides a better way of thinking about business, economic systems and profit. For example, in the virtue framework, firms are artefacts designed to serve human interests. In the virtue framework, the goal of business institutions is to provide goods that individuals need to flourish. Understood in this way, profit is a provision for sustaining a firm. In the competitive world of business, profit is a reward to the entrepreneurs for providing goods and services to society. Accordingly, in her book *Economics for Humans*, Julie A. Nelson argues that “the purpose of the economy is about the provisioning of goods and services to meet our material need the way we manage our time and money so that we can obtain groceries and shelter and thus keep body and soul together” (2006:1).

### **4.5.3 Private property**

Capitalism, in addition to competition and profit motives, is also characterised by private ownership of the means of production (Shaw 2011:138). Private property is distinguished from public property, collective property and common property, which refer to assets owned by the state or community rather than by individuals (Waldron1985). The institution of private property involves ownership, control, and the ability to dispose of and bequeath land, capital and other forms of property that individuals own (Macpherson 1987:79). It also involves the right to exclude others from interfering with an individual’s personal property.

This section discusses the role of private property in the capitalist system and also argues that a virtue framework provides a more solid moral defence and justification for the institution of private property than the neoliberal framework advocated by Locke (1976) and Nozick (1974).

#### **4.5.3.1 Forms of property**

The institution of private property is at the heart of capitalism. Capitalism involves the production of goods and services, as well as the transfer of such goods from one person to another. In order to produce goods, entrepreneurs use capital or property. Capital comprises all manufactured resources, such as machines, tools and building equipment, that are used in the production of goods and services. In contrast, consumer goods are things or items on store

shelves, for instance food, clothing and soap, which people purchase for consumption purposes rather than investment. Capital goods are used to produce other goods. The production of capital goods may involve sacrificing present consumption in order to accumulate capital and generate future rewards (Mohr 2010:9).

In the capitalist system, the term “property” covers a wide range of possessions or items. Before the abolition of slavery, human beings were considered property. During that time, people could be bought or sold. The abolition of slavery meant that human beings could no longer be the property of other human beings (Shaw 2008: 128). In a similar way, ideas, for example, were not something to own because knowledge was considered a gift from God. (Carruthers 2004: 24). While, in the past, objects of property were restricted to physical things, such as land, livestock and buildings, property nowadays includes intangible assets, for example bonds, shares, trademarks and patents (Carruthers & Ariovich 2004:25). In liberal society, “[t]he common defence of capitalism is the argument that people have a fundamental moral right to property and that our capitalist system is simply the outcome of this natural right” (Shaw 2008:129). While, in a socialist system, individuals are not allowed to own means of production, in a capitalist system, individuals are at liberty to own private property.

The question that comes to mind is: What is the moral justification for the institution of private property? Why should individuals own property?

#### **4.5.3.2 Locke’s labour theory of value**

The moral justification for property can be based on rights or on needs. The most dominant liberal justifications for private property is based on the “self-ownership thesis” and “labour theory of value” advocated by Locke (1976) and Nozick (1974). In Chapter 5 of his book, *The Second Treatise on Government and a Letter Concerning Toleration*, John Locke (1976:15) presents the following argument:

Every man has a property in his own person; this nobody has any right to but himself. The labour of his body and the work of his hands, we may say, are properly his. Whatsoever, then, he removes out of the state that nature hath provided and left it in, he hath mixed his labour with, and joined to it something that is his own, and thereby makes it his property.

The self-ownership thesis is rooted in the belief or understanding that human beings are rational and have the capacity to choose rationally. Secondly, it is rooted in the belief that human beings have natural rights, which are absolute and inalienable; hence, they cannot be surrendered, sold or transferred to someone else (Andrew 1985:529). Locke regards natural rights as God-given. He argues that, if an individual has a natural (absolute) right to self-ownership, such a person must also have an absolute right to the fruits of his or her labour (Locke 1976:15). As Sheldon (1983:29) put it: “It appears to come as a first principle of his very being, he clings to the work of his hands almost as he clings to life itself”.

The idea of self-ownership implies that people own their talents, capacities, skills and character. According to Sheldon (1893:30), “[w]hat we make or do is a part of the self which makes it. It comes of my being; it receives the stamp of my mind. It is the offspring of my energy; it is mine. Labour makes property and so, it is argued, labour justifies private property”.

Furthermore, the self-ownership thesis assumes that individuals are self-made; hence, they have no moral obligation to anyone who has helped them achieve what they have attained. However, one might argue that a person is a product of other people’s endeavours, for example parents and teachers, who have made great sacrificed for his or her welfare. How, then, can one claim self-ownership? This does not mean that children, for example, are the property of their parents. What it implies is that the self-ownership thesis is based on flawed logic and, therefore, constitutes a weak justification for natural rights to property.

The claim that human rights are natural rights or God-given contradicts the principle of self-ownership. The absolute right of self-ownership would only be justified if individuals were also self-made. Sheldon (1983:30) poses the following question: “As a man looks in the face of those parents, can he ever say with perfect assurance of any object, ‘this is absolutely mine because I alone have made it, and I own no man anything?’” MacIntyre identifies this as a lack of the acknowledged dependence virtue, which stems from the realisation that human beings are dependent rational animals (MacIntyre 1999:119). If human rights are God-given, it would imply that human beings do not own themselves but that they are the property of God.

Nozick builds on the Locke’s argument of self-ownership and the Kantian principle of means and end to show that individuals who own themselves have a right to produce, own, sell, keep and bequeath (Exdell 1977:142; Nozick 1974:30-33). Nozick adapts his understanding of

human rights to the second Kantian formulation of the categorical imperative: “Act in such a way that you always treat humanity never simply as a means, but always at the same time as an end”. Subsequently, he argues that human beings have natural rights to self-ownership and that they should not be treated as mere means but as an end as well. And, since individuals own themselves, they cannot be treated as means but must be treated as an end.

From this, he concludes that taxation as a form of distributive justice is a violation of individuals’ rights to property (Nozick 1974:177). He argues that just distribution can only be achieved through the market and with limited government intervention. People own themselves and should be free to choose what they want to do with themselves, even if they want to sell themselves into slavery. As Nozick asserts, “The comparable question about an individual is whether a free system will allow him to sell himself into slavery. I believe that it would” (Nozick 1974:331).

By insisting that human rights are natural rights, and also that individuals have absolute property rights implies that selling one’s labour and goods is a violation of property rights. As Andrew argues, “[i]f rights are inalienable, they are not private property or freely disposable at the will of the right holder” (Andrew 1995:529). This means that trade and economic activities are a violation of human rights because such activities require individuals to surrender or relinquish their property rights. If you have an absolute right to your life, this also implies that you are not allowed to take away your own life, which means that you do not have absolute jurisdiction over your life. In this way, your self-ownership is limited as well.

Consequently, Locke and Nozick’s position is not congruent with the role of private property in a capitalist system of business. Capitalism is about exchanging goods and services through markets. The Kantian argument that no man should not be dealt with merely as a means, does not necessarily imply that such a person has absolute rights to the fruits of his labour (Exdell 1977:143).

#### **4.5.3.3 Status of private property: means or end?**

Is private property a means and/or an end in itself? Macpherson (1979:7) suggests that the answer to this question depends on where one starts. If we base our justification on rights, as Locke and Nozick (1974) and Friedman (1970) do, then we are very likely to arrive at the conclusion that the right to private property is absolute; hence, private property has intrinsic value. This means that it can be pursued for its own sake. However, if, like Aristotle, we base

our justification of private property on the human needs theory, we are very likely to conclude that private property is a means rather than an end in itself. Our take is that the latter rather than the former understanding of private property better justifies and articulates the role of property in a capitalist system.

What are human needs? Needs are all the things that one requires in order to remain human or without which, a person will be harmed; without needs, an individual would be impaired (Doyal & Gough 1991:35). Famous psychologist Abraham Maslow (1970) identifies five needs, which were organised into a hierarchy: physiological needs, safety needs, belonging and love needs, esteem needs, the need for self-actualisation/human flourishing/human well-being (Maslow 1970: 35-58; Doyal & Gough 1991:35). He also argues that, once their human needs are satisfied, people move on to satisfying their wants. Both needs and wants require private property.

Private property is morally justified because it satisfies human needs. Human flourishing is a human need without which individuals could be seriously impaired. The virtue framework better articulates the nature of capitalism. It also better articulates the motivation for labour, i.e. why individuals seek employment, open up businesses, etc. Business or commerce/trade involves the transfer of goods from one person to another. If individuals have absolute/inalienable rights to private property, trade would be a violation of such rights. Trade assumes that individuals have alienable rights to goods that they put on the market.

Labour is a means that individuals use to exercise virtue. It is also a means that individuals use to source the goods necessary for human flourishing. In this way, labour as private property has no intrinsic value. It can be used, be sold, be exercised, and help individuals flourish. Labour has a market value and is subject to the market forces of demand and supply. In such a world, therefore, one can exchange labour for a fixed wage.

In capitalism, the institution of private property is not an end but a means. What can become an end is the process of property accumulation. The major concern of the virtue framework, as regards private property, is the impact that wealth has on human character. A certain use of wealth as well as certain modes of acquisition can undermine virtue. For instance, inheritance and gift giving are forms of property acquisition that could have a negative impact on the character of the beneficiaries. While property acquired through personal initiative and creativity reinforces virtues, we live in a world where some individuals do not have to work or think creatively to live comfortable lives.

In a similar manner, when property accumulation – an incessant desire for more wealth – becomes one’s life goal, Aristotle suggests that it could also lead to vices of greed. In a similar way, it could also be a symptom of psychopathology.

#### **4.5.3.4 How does the institution of private property impact virtues?**

According to Aristotle, private property is necessary for human flourishing. It provides individuals with the necessary resources to exercise virtues. Private property allows people to meet domestic needs and to join practices where they can exercise virtues and actualise their capacities. Certain virtues require individuals to own resources in order to exercise their abilities. The virtue of generosity, for instance, can only be exercised by individuals who own resources. If one has to be charitable, one certainly must have something to give to charity. Thus, private property facilitates the cultivation of a virtuous character by furnishing individuals with the opportunity to practise benevolence and philanthropy, i.e. to exercise virtues. It is therefore necessary to have the right to private property in order to exercise virtues (Macpherson 1987:77).

Additionally, Aristotle argued that private property is more conducive to human flourishing than any form of common ownership, since people bestow more attention upon the management of private than public property. Furthermore, private ownership is a source of pleasure, which is conducive to the cultivation of a virtuous character

Developing oneself and exercising one’s capacities is dependent on material property. Thus, not all forms of private property spur virtues. For instance, property acquired through inheritance can stand in the way of virtue. Acquiring private property can consequently induce the habit of dependency and engender laziness, which can inhibit the need for work. Some ways of acquiring property, even if they are legal, can thus discourage activities that can reinforce the development and cultivation of virtues.

This brings us to what De Soto, in his book *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, calls “dead capital”. De Soto argues that capital outside of the formal market or in informal markets has limited potential because the owner cannot use it to tap into national or global financial markets (De Soto 2000:4). He argues:

But they hold these resources in defective forms: houses built on land whose ownership rights are not adequately recorded, unincorporated business with undefined



liability, industries located where financiers and investors cannot see them. Because the right to the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment (De Soto2000:6).

This implies that individuals who operate in formal markets and who have legal titles to property have a better chance of exercising virtue using their assets than individuals who operate in informal markets and do not hold titles to their assets. For example, individuals living in informal settlements cannot use their property as collateral to get loans from banks. As a result, such property is not productive property because it cannot be used to create more wealth.

Private property acquired through subsidies and affirmative action, could have a similar effect on character. Instead of stimulating action and productivity, such policies could induce inaction and reinforce dependency and passivity. The South African economist, Philip Mohr (2010) wrote:

More than 25% of the South African population receives social grants, mainly child support grants, old age pension and disability grants, and more than 3.5% of GDP is spent on these grants. Apart from helping the recipient to survive, the grants also have important indirect or multiplier effects, for example, informal, small and other businesses make a living by catering for the demand created by recipients of the grants, particularly in rural communities. But welfare policy also has drawbacks. The child support grant, for example, could inadvertently give young women an incentive to become pregnant to claim the grant. (Mohr 2010: 167).

Inheritance is another form of property transfer that can undermine virtues. The protestant ethics exonerates the virtues of diligence and frugality as responsible for the success of capitalism. While the virtues of diligence and frugality are associated with wealth accumulation, some individuals do not have to work in order to be rich because they have inherited wealth.

One can become a millionaire overnight by simply being a beneficiary of a deceased's estate. However, being a property owner does not make one a virtuous person. While inheritance can transform our material status from being poor to being rich, it does not transform our

character from being lazy to being diligent. Inheritance offers one an opportunity to meet one's needs in life; for example, it could provide a person with opportunities to attend school or acquire capital, which one can invest and use to exercise one's entrepreneurial virtues.

In summary, individuals need goods or property to exercise virtues and flourish. However, property in the form of aid, subsidies, affirmative policies and inheritance can undermine virtues because it prevents individuals from using their creativity, personal initiative and self-determination, which are necessary for building a virtuous character. Thus, exercising virtue in business is limited to those who have private property. Individuals without property cannot exercise virtues. The effectiveness of the virtue framework is limited to situations in which people have inter alia property and opportunities for employment.

#### **4.6 Conclusion**

This chapter set out to discuss the various advantages and disadvantages of making the virtue framework a meta-theory of business. The advantage of a virtue framework is that it recognises that business plays many roles in society. Businesses provide goods and services that human beings need to flourish. Profit is simply one of the many goods that businesses generate. Furthermore, the virtue framework recognises that, in order to succeed in business, individuals need to exercise virtues and own property.

Thus, virtues are responsible for economic efficiency and economic growth. Additionally, the virtue framework recognises that private property is crucial for exercising virtues. However, property in the form of aid, subsidies or inheritance is a double-edged sword that can have a positive or negative impact on virtue depending on how a beneficiary puts it to use. The possible negative effect of aid and inheritance is that they have the capacity to induce laziness and complacency.

## Chapter 5: Conclusion

Over the past twenty years, virtue theory has steadily gained prominence in business ethics. This study set out to investigate and establish the implications, advantages and disadvantages of making virtue theory a meta-theory of business. To achieve this aim, Chapter 2 exposed the basic elements and characteristics of the Aristotelian virtue framework. Chapter 3 discussed the implications of using virtue theory as a meta-theory of business. Finally, Chapter 4 examined the advantages, disadvantages and limitations of virtue-based capitalism.

The virtue framework is rooted in the idea that human life is purposive. The goal of human life is to flourish/achieve well-being or realise its potentials (NE1097b22). Human flourishing consists in having good health and having the necessary provisions in life as well as prospects of achieving full human maturity. To be able to flourish, an individual must practice virtues (Politics 1328a37-38). However, this does not imply that practicing virtue and flourishing are compulsory. Individuals who wish to flourish should freely choose to participate in activities that would lead to the realisation of their capacities. However, to flourish, individuals require a moderate amount of external goods, for instance, food, shelter, clothing, money to pay school fees, etc. (Aristotle 1099a31-1099b7). Consequently, those who lack such goods, or who live in deprivation, cannot achieve well-being.

Firstly, virtue theory is rooted in the conviction that human beings are rational, emotional, social and political animals. Secondly, central to virtue theory is the notion that the goal of human life is to flourish, which is a rational activity of the soul in accordance with virtue. Thus, human flourishing can only be achieved by exercising both intellectual and moral virtues. It consists in living well and doing well. Intellectual virtues guide a person to perform appropriate actions, while moral virtues help an individual to live well by him or herself and among other people.

Virtue is a character trait cultivated through practice; it is not a moral principle (NE1103a3). While intellectual virtues are acquired through teaching and training, moral virtues, which are a habit or disposition of character, are acquired through practice. This implies that a human being is not born with virtues. We are only born with the capacity to acquire them. Therefore, we can learn to be courageous, self-controlled, prudent and wise.

Human flourishing consists in the realisation of one's capacities. Those who are good at teaching will end up as teachers; those gifted in football will flourish as footballers; those who have a scientific mind can only flourish by participating in scientific activities; and those with entrepreneurial virtues can only flourish by establishing and running businesses. This suggests that Aristotle's theory – that the best and only way to flourish is to spend one's life in contemplation – is too narrow and reductive and, worse still, that it contradicts and fails to articulate the plurality and diversity of options of well-being available to human beings.

Since human flourishing consists in the actualization of individual potentials, and since human capacities differ from one person to another, there cannot be only one mode/form/way of human flourishing. Thus, any attempt to apply a virtue framework to business has to take all these elements into account. The question is: What are the implications of making virtue a meta-theory of business? Chapter 3 provides an answer to this question.

Chapter 3 discussed and demonstrated the implications of making the virtue framework a meta-theory of business. Firstly, virtue theory holds that human flourishing is the ultimate goal of human life, which implies that the goal of a business founded on virtue must be instrumental to achieving human flourishing. In other words, a business founded on virtue cannot have only one goal that is independent from human goals. Therefore, businesses that are virtue-based can have multiple goals.

This is contrary to the neoliberal thesis, which claims that a business has only one responsibility: to generate wealth for its shareholders (Friedman 1970). This, of course, has several negative implications. It means that profit is the sole guiding value of business activities. It also implies that business actions are excluded from moral consideration and separates business concerns from human concerns (Sanberg 2008:214). Consequently, this theory generates a framework in which people can be treated merely as means for the bottom-line, which unfortunately raises issues of justice and human rights.

In short, Friedman's stockholder theory is too reductive. It fails to recognise that businesses produce goods and services that satisfy human needs and wants: goods that are necessary for human flourishing (Aristotle 1252b12-14). The advantage of the virtue framework is that it recognises business activities as human activities. And, as such, business goals are also human goals. Thus, the virtue framework gives business a human face (Arjoon 2000:168). In such a framework, business would have multiple goals of which the bottom-line is simply one.

Furthermore, the virtue framework assumes that businesses cannot operate in a vacuum because they involve human beings and human beings are social animals. Thus, firms are part of a bigger community. This also implies that firms have a moral responsibility beyond profit maximisation. They should not pollute and should not be conducted in a way that undermines human well-being. Thus, a virtue-based firm has a broader understanding of its cooperative social responsibilities.

Virtue theory is concerned with cultivating a virtuous character. This implies that, in the business world which is virtue-based, morality is not just about following rules and laws but a matter of cultivating virtuous moral dispositions. Thus, the virtue framework brings to the fore the importance of good character in business. The character of the individual becomes a key criterion, for instance, for hiring and firing individuals. Individuals' character is revealed in their career history, i.e. the things they have done or failed to do.

The other significant implication of virtue-based business practice regards the role of managers in the workplace. The virtue of practical wisdom requires individuals to cultivate the habit of conceiving and finding moral solutions by themselves. Thus, a virtue-based workplace would not need managers, but leaders who can be role models for the other employees. This also implies that managers must be more advanced in terms of virtues than the people they lead.

The other very crucial implication of applying the virtue theory to business is that the workplace and market arena have to be schools of virtue. This is only possible if the values of the workplace and the markets are compatible with the values of the community in which the firm is operating. The advantage of the virtue theory is that it is not schizophrenic because virtues guiding one's private life are the same as those one exercises in one's professional life.

However, some philosophers, for instance, David Hume and Adam Smith (Graafland 2009), who subscribe to the *doux-commerce* thesis, have stated that commerce has a favourable influence on virtues because it provides opportunities for people to come together, to interact, get to know each other and exercise virtues. In this way, these philosophers overemphasise the benefits of the markets but they do not explain why some people are poor and why, at times, the markets fail, why there is fraud or why there is environmental degradation. As we saw in the 2008 economic downturn, when markets fail, people can lose their savings, fail to repay their mortgage and become destitute. This shows that the *doux-commerce* thesis has

very limited explanatory power.

The other group of philosophers who contributed to the self-destruction thesis (the idea that the market has a negative impact on society), for instance Plato and Aristotle (Graafland 2009), argue that, instead of promoting virtues, the market has a corrosive effect on virtue and social relations. While admitting that commerce is necessary for human flourishing, Aristotle argues that it should be limited to providing for domestic needs only. According to him, businesses, for example the retail and financial trades, which make a profit by charging interest and commission on their services, can lead to greed and a pathology or a personality disorder, called 'pleonexia' i.e. an insatiable appetite for more money.

Even though such economic activities can lead to greed and personality disorders, such as materialism, this does not mean that such businesses are not justified in charging interest and commission for their services. One should remember that Aristotle had a very limited understanding of commerce. He never thought that retailers, by bringing goods from the producer to the consumer, add a distributive value to the goods they sell. It only makes sense that such a value must be factored into the price of the goods on the shelf.

Contemporary proponents of the self-destructive thesis argue that capitalism carries the seed of its own destruction, because it has a tendency to undermine the moral foundations on which it rests (Hirsch 1976: 141). For instance, the virtues of trust, truth, and diligence are very crucial to the functioning of individualistic capitalism. Nevertheless, individualism that is only self-interested is certainly antithetical to virtue (Hirsch 1976:141). Thus, individualistic capitalism – because it promotes the interests of the individual and neglects the interests of the community – corrodes social relationships which are necessary for nurturing and supplying the virtues. As Putman (2000) argues, individualistic capitalism is responsible for the disintegration of social life in the West, where many forms of community life have collapsed. In these societies, therefore, individualism has eroded the social structures that have nurtured and supplied the virtues.

Since virtue is crucial for commerce, we have no other alternative but to devise an economic system, i.e. a form of capitalism, that is not toxic to virtues, that is not undermined by individualism, that values human interconnectedness and that builds community: a type of capitalism founded on the Aristotelian virtue framework. This is what the final chapter attempted to achieve.

Chapter 4 discussed the advantages, disadvantages and limitations of virtue-based capitalism. Capitalism is an economic system where goods and services are transferred via competitive markets, in which the means of production are predominantly in private hands. It is characterised by a profit motive, private ownership of the means of production and competition or rivalry in the markets (Donaldson & Pollins 1978:26). This economic system originated in the West between the 17th and 18th centuries (Tawney 1948) due to favourable conditions. For instance, by the year 1700, countries, such as the United Kingdom, Belgium and the Netherlands, had accumulated enough capital to enable them to produce surplus goods to sell. They had also developed, markets, banks, high literacy levels, courts, police services, security of private property and technological inventions that made the production and distribution of goods very efficient (Pryor 2010:53).

According to Max Weber, capitalism developed in the West due to the emergence of the protestant spiritual and religious values that encourage the virtues of diligence, frugality, austerity and accumulation (Herbroner 1992:33). Furthermore, protestant spirituality spurred the development of capitalism because it presented wealth accumulation and entrepreneurship as a vocation, and wealth as a blessing, not an impediment to salvation. However, this does not imply that virtues were only available in protestant cultures because the spirit of capitalism was already present in catholic cultures, including Venice, Florence and Southern Germany. A single factor is not enough to explain the evolution of capitalism. In other words, a set of factors accounted for the development of capitalism.

Be that as it may, Weber argues that, for a society to be capitalist, a significant proportion of its population must change its mind-set and subscribe to the values compatible with capitalism. For a country to be capitalist, a large proportion of its citizens must be entrepreneurs. Additionally, a capitalist country must develop the relevant supportive institutions, build the appropriate infrastructure and have a favourable culture.

Since cultures are not universal, differing from one society to another, capitalism will shape cultures as it spreads over the globe, and, in turn, local cultures will shape capitalism. Therefore, the values that will be the bedrock for business transactions in India may not be the same values that guide business in France. The end result is that there will be many varieties of capitalism. The question that comes to mind is: Which variety of capitalism is compatible with the virtue framework?

Those who subscribe to liberal values, argue for laissez-fair capitalism, with limited government involvement in the markets (Adam Smith 1759, Hayek 1948, Friedman 1962). They suggest that the role of the state should be that of a “night watchman” whose responsibility is simply to protect its citizens from violence, fraud and maintain order and provide services that cannot be accommodated in the free market (Bremmer 2010:27).

The argument for a laissez-faire capitalism is erroneously premised on the assumption that the markets are moral, autonomous, without biases and unaffected by political and personal interest. It also assumes that markets are just, inherently stable and perfect, and that government intervention will destabilise the markets. And yet, as Keynes (1949) observes, markets are cyclical. They are characterised by booms, bubbles and busts. Such ruptures in the markets have serious social costs because they can result in the loss of business and property, which may require government intervention to save human lives. It is therefore impossible to have pure capitalism, in which the state has a hands-off approach (Chang 2010:1).

Thus, where the state exercises a hands-off approach, we have pure capitalism or laissez-fair capitalism. If the state is involved, we have a mixed economy. If the state has an upper hand in the market, we have state capitalism. The reality is that there are many types of capitalism.

Hall and Soskice’s (2001) study shows that capitalism has evolved into two models: a liberal market economy (LME) and coordinated market economy (CME). A LME is liberal, adversarial, less coordinated and individualistic, offering jobs on a contract-basis. An LME has a footloose/fluid labour force and is motivated purely by profit. A CME, on the other hand, is coordinated, collaborative and offers long-term employment. Since the practice of virtue requires collective and collaborative activities, a CME rather than an LME is more suitable for the virtue framework.

The lesson is that, since capitalism has triumphed over socialism, the competition is no longer between capitalism and socialism but between different capitalistic cultures. The statistics suggest that 70% of the world’s population is collective, while only 30% is individualistic (Triandis1995). The virtue framework is a hybrid of individualistic and collective cultures. It is therefore more compatible with the coordinated market economies than the liberal market economies.



The economies of Germany, Japan and China are collective and yet highly successful. On the other hand, the economies of the United States of America and United Kingdom are individualistic and successful too. This indicates that the liberal values are not the only ones that can lead to economic prosperity. It is therefore not necessary to embrace extreme individualism, which ignores the importance of community and disparages human connectedness, nor is it necessary to embrace extreme communitarianism, which suffocates individuality and can sacrifice individual interest for the common good. The virtue framework is the midway between the extremes of individualism and communitarianism. The virtue framework integrates the best elements of the two cultures.

The advantage of the virtue framework is that it is not only self-regarding like extreme individualism, or only other-regarding like extreme communitarianism. It is both self-regarding and other-regarding. Its limitation is that it cannot provide moral guidance in markets that are extremely individualist or extremely collectivist.

One crucial advantage of the virtue framework is that it avoids the pathologies that result from holding extreme moral views, because, as a theory, it is neither extremely individualistic nor extremely collectivist. As a result, the virtue framework is not opposed to all forms of capitalism; it is only opposed to economic systems that are founded on extreme individualistic and extreme collectivist value systems. In this regard, the advantage of the virtue framework is that it is an infusion/integration of moderate individualism and moderate collectivism. Subsequently, it manages to maintain a healthy and well-integrated conception of human nature.

Furthermore, since it recognises the importance of context in morality, the virtue theory explains and justifies the moral foundations of many varieties of capitalism apparent in the world. It points out the reality that, as capitalism spreads across the globe, the final result will not be one homogeneous market founded on one value system. To the contrary, such a process will result in many varieties of capitalism, reflecting various shades of virtue as conceived by different local cultures. For example, capitalism in Asia, Brazil, China and Russia will not be the same as capitalism in the United States of America, Canada and Japan, because these societies subscribe to different value systems.

The debate about the market is centred on markets being considered civilising and moralising (*doux-commerce* thesis) on the one hand and feeble or self-destructive on the other (*self-destructive* thesis). However, the debate does not specify under what conditions markets are

moralising, feeble or morally destructive. With this analysis, we are now in a position to specify what cultural conditions in the markets are corrosive to virtue. Therefore, while the virtue framework has many advantages, it seems that it is also fragile because it cannot endure the corrosive effect of individualistic markets (Sonnet 1998). Moralising markets are therefore not corrosive to virtue, while those markets that do not support virtues are destructive to morality. Hence, the effective applicability of virtue to business practice is limited to contexts of likeminded virtuous firms.

Individualism assumes that the best way to proceed economically is to have a laissez-faire capitalism that is self-regulated (Bremmer 2010: 27). Since virtue is voluntary, it is not easy to completely filter out greedy individuals in the markets. While the virtuous will not need rules or laws to guide them, those who are not perfect will still need a moral compass or moral beacons that are not necessarily modelled on virtue but that can guide them on the path to virtue.

The danger of living in a society with dwindling virtues is very obvious. We should expect frequent corporate scandals and economic crises due to corruption. We may also have to build more prisons as a result. We have no choice, therefore, but to craft codes of ethics and create laws to guide those who are not perfectly virtuous to prevent them from acts that are damaging to others and create social instability (Aquinas *Summa Theologica*, 1a-2ae).

Property is at the heart of capitalism. The dominant justification of property rights is that the libertarian justification is based on the self-ownership thesis: the idea that each human being has property in himself or herself. As such, each person has absolute rights to the fruits of his or her labour. For example; when such a person mixes his or her labour with nature, let's say land, that is part of nature also belongs to him or her. The labour theory of value is thus the belief that the value of things stems from the labour exerted on them.

This study has argued that the self-ownership thesis is not a solid foundation for the justification of property rights because its logic is flawed. It is extremely individualistic and ignores the social aspects of human nature. The self-ownership thesis would only be true if human beings are self-made. Unfortunately, this cannot be true because human beings are a product of many hands: many people play roles that contribute to what an individual becomes. As MacIntyre (1999) asserts, such a claim suffers from a lack of "virtues of acknowledged dependence", i.e. the idea that human beings are dependent rational animals. The virtue of humility is required to accept that human beings are not self-made.

However, the claim that that a human being is not self-made does not necessarily implies that a person cannot own things. It also does not imply that a person does not own his or her talents and capacities. For individuals to flourish and realise their capacities, they require many things. Without external goods or property, an individual cannot flourish.

Human flourishing is a basic need for if a person cannot flourish, he or she is impaired. Private property can therefore be considered the basis of human flourishing. This also explains the motivation for a lot of human activities. As a basic need, human well-being motivates human behaviour to seek satisfiers and private property in order to satisfy the need to flourish. In this way, the human need to flourish justifies the institution of private property.

However, certain forms of private property have the capacity to undermine virtues because such forms of property inhibit the need to practice virtues. This has serious implications, for instance, for the role of competition in the market, since certain levels of competition can undermine virtues. Tough competition or a complete lack thereof has a very negative impact on virtue. In similar way, inheritance can also undermine virtues because it can induce sloth by taking away the need for work, which is necessary for practicing virtues. These forms of private property can only be tolerated if they are intended to help people start off.

In markets with little or no competition, entrepreneurs have no incentive to work hard. On the other hand, when competition is fierce, people may resort to unethical conduct in order to gain an advantage. This suggests that virtue is only effective when competition is high, not too low or too fierce. Consequently, competition must be regulated to levels that stimulate creativity, innovation and productivity, and should avoid levels that can hinder or undermine virtues. It also means that programmes, like subsidy programmes and monopolistic policies, which kill competition, should be excluded from the virtue framework. Furthermore, this means that the virtue framework is far from a free market system that is self-regulated. A virtue-based economic system must be regulated to minimise the corrosion of virtue and safeguard human flourishing.

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